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Consultancy Report

Midterm Evaluation

Pilot Caja Rural - Cruz de Chalpon
Cooperative Agreement 527-0349-S-00-2228

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EXECUTIVE SUMMARY

The Caja Rural and Community Based Enterprise Development Project is a three-year project with the goals of developing a sustainable, reliable community-based credit institution that can efficiently finance viable development activities and generate new sources of rural employment, rational economic development, and sustainable sources of income for the agricultural producers in the Olmos, Motupe, and Jequetepeque valleys

Work within the project is divided between ACDI and TechnoServe. ACDI has responsibility for development of the Caja Rural and overall implementation of the component. It provides technical assistance on finance and organizational development to Cruz de Chalpon. TechnoServe has a sub-agreement with ACDI, under which it is responsible for implementing actions related to development and/or strengthening of community-based enterprises (CBEs) which will access credit from Cruz de Chalpon. In addition, ACDI has secured P L 480 Title III funds to support institutional strengthening efforts with eight other Cajas Rurales, which include provision of technical assistance to develop strategic plans, provision of training in finance for directors as well as technical and managerial staff, and assistance in developing and implementing new services.

The broad purpose of the evaluation of this project is to assist the USAID/Peru and ACDI in reassessing the overall project design, and identifying strengths and areas for improvement, and specific actions that will help USAID/Peru and ACDI to maximize achievement of project objectives.

The evaluation has been carried out by a two-person team, which collectively possess skills in project design and evaluation in Latin America. The evaluation visit took place during the period May 19, 1996 to June 20, 1996. The team used the following data collection and interview methods:

- 1 Reviewed relevant project papers, contracts and periodic reports
- 2 Interviewed the Caja Rural's Board members, staff, field officers and clients as well as TechnoServe's staff working with CBEs and their clients
- 3 Performed site visits to representative Caja Rural and CBE clientele in Chiclayo and the Olmos-Motupe-Jequetepeque valleys
- 4 Performed site visits to Cajas Rurales in Tarapoto, Piura and Ayacucho and met with management personnel, directors and clients
- 5 Reviewed financial records, management information system, and the loan portfolio of the Caja Rural
- 6 Reviewed information available from the Bank Superintendent regarding the Caja Rural system nationwide and assessed the performance of Cruz de Chalpon relative to national data
- 7 Interviewed appropriate staff at the Ministry of Agriculture, Ministry of Economy and Finance (COFIDE) and the National Association of Cajas Rurales

Our key findings include:

- 1 The Caja Rural Cruz de Chalpon pilot project has been successful in meeting the vast majority of its objectives if it is evaluated as though it were just completing its first year of operation
- 2 The TechnoServe component of the project is not essential to the basic need to create a strong community-owned, market-driven financial institution

- 3 To the degree that the valuable functions of (a) production assistance, (b) commercialization, and (c) market information need to be provided, the most efficient way for them to be provided if the project is extended would be to have that component transferred to ACDI
- 4 That TechnoServe provided positive technical assistance in the form of enhancing yields, export capability, and profitability for target groups during the second phase of the project. However, even in the best of circumstances, the TechnoServe component of the project will not be able to create viable business units in the groups thus far organized within the expanded time constraints, and additionally, the credit needs that are foreseen for the export based production will require loans of a maturity beyond what would be possible in the current CRAC environment
- 5 The efforts undertaken by ACDI under the Title III program have had a positive impact on the eight participating CRACs. The success of this program has been tempered by the fact that there has been a significant turnover of directors and the pace of development among and between the eight institutions differs significantly. The material being presented is relatively complex in nature and it should not be expected that a one-time exposure will provide the participants with the background necessary to fully understand the material
- 6 The problematic approach taken to software development with its inherent probability of an inability of the selected firm to deliver a viable product suggests that these efforts need to be closely monitored and that the CRCC should create a fallback position which could be implemented in the event an appropriate software package is not delivered in a timely manner
- 7 That a key element inhibiting the ability of CRACs to effectively expand their lending activities is the fact that many small farmers (and a majority in many regions of the country) do not hold title to their land. Thus, given the importance of real property guarantees in the legislative, regulatory and policy framework, they are unable to provide adequate collateral when applying for loans

Following our analysis we developed a series of recommendations designed to allow Caja Rural Cruz de Chalpon to make changes and improvements to enhance its ability to achieve project objectives, and to modify assumptions and tactics to improve the development potential for a nationwide system for Cajas Rurales. Key recommendations include:

- 1 The Caja Rural Cruz de Chalpon pilot project has shown significant potential, meeting nearly all objectives indicated for the first year of operation of the CRCC and should be extended through December 1997 at current funding levels
- 2 In the extended project, ACDI should place emphasis on the following aspects in their work with the CRCC
 - credit function
 - savings mobilization
 - capital accumulation
 - software implementation
 - opening the branch in Jaen
- 3 The TechnoServe portion should not be funded as part of the extended project. However, to the degree that TechnoServe is able to find alternative sources of funding to support intermediate/long-term export based production, USAID/Peru should

- consider funding a portion of the costs associated with the on-going technical assistance program
- 4 Technical assistance provided directly to Caja Rural Cruz de Chalpon should be gradually reduced to allow the directors and managers to take more direct control of the decision-making process
 - 5 Assistance to the CRCC should be gradually reduced throughout the remaining project life, with increasing focus placed on expanding efforts with the other eight CRACs and on providing support for development of a national system
 - 6 Efforts towards development of a "national system" should be increased, including increased support for creating an independent and viable association. A "grass roots based" strategic planning approach for the association should be developed and implemented
 - 7 Current Title III efforts should be continued for an additional 12-15 months for
 - providing assistance in implementing and updating current strategic plans
 - providing a second run through for institutions which have experienced significant board/staff turnover
 - providing a series of enhanced financial management training programs for board members and management personnel
 - identifying and, hopefully with the support of the SBS, developing a program to intervene in those CRACs experiencing serious problems with the goal of returning them to viability
 - 8 ACDI should work closely with the SBS to improve the program of supervision and examination for Cajas Rurales carried out by the Superintendencia
 - 9 Changes in the law should be made which rationalize geographic limitations on the area served by individual institutions and increase the lending limit from five percent to ten percent of institutional capital. Also, begin analysis of the terms and conditions under which Cajas Rurales might be allowed to offer checking accounts to customers should be undertaken
 - 10 Internal and external funding sources to allow Caja Rural Cruz de Chalpon to be able to make loans with intermediate and long-term maturities should be identified
 - 11 Close monitoring of any and all government efforts toward creating a rural bank should be made in order to ensure that Caja Rural interests are well represented in the process
 - 12 If the association reaches a position where it is feasible to consider developing a second-tier financial institution, USAID/Peru should provide funds for a 3-6 months of short-term technical assistance to support the efforts
 - 13 Place emphasis on agro business and agro industry loans, or loans that tie in directly with existing supplier relationships
 - 14 ACDI should make significant effort to help speed up the land titling efforts which are currently underway in the country

LIST OF ACRONYMS

ACDI	Agricultural Cooperative Development International
ACRAC	Association of Cajas Rurales of Peru
BAP	Banco Agrario del Peru
CAF	Corporacion Andina de Fomento
CBE	Community Based Enterprise
CMAC	Cajas Municipales de Ahorro y Credito
COFIDE	Corporacion Financiera de Desarrollo
CRAC	Caja Rural de Ahorro y Credito
CRCC	Caja Rural Cruz de Chalpon
GOP	Government of Peru
IDB	Inter-American Development Bank
MEF	Ministry of Economy and Finance
MOA	Ministry of Agriculture
MSP	Microenterprise and Small Producers Support Project
P L 480	Public Law 480
SBS	Superintendencia de Banco y Seguros
TA	Technical Assistance
TNS	TechnoServe
USAID	United States Agency for International Development

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A INTRODUCTION AND OVERVIEW

1 Introduction

The Caja Rural Cruz de Chalpon and Community-Based Enterprises (CBE) pilot project is part of a broader Microenterprise and Small Producers Support Project (MSP) which was initiated in 1991 between USAID/Peru and the Government of Peru (GOP). These activities grew out of changes instituted by the GOP, beginning with the liquidation of the Banco Agrario del Peru (BAP) which had operated for more than 20 years using the traditional Latin American model of providing heavily subsidized credit programs for the agricultural sector. Credits were generally granted for political considerations, with little attention paid to the viability of the investment or the moral solvency of the borrower. Liquidation of the BAP left a significant void in the ability of the agricultural sector to access credit. Therefore, in 1992 the GOP reintroduced the concept of rural banks (Cajas Rurales) as an alternative method to finance agricultural production.¹

Impetus for development of Cajas Rurales (CRACs) in the current environment came from the Ministry of Agriculture (MOA). The first three CRACs began operating in 1993, and by late 1994 there were eight institutions in operation. An Association of Cajas Rurales (ACRAC) was created to provide support for the CRACs, particularly in the areas of lobbying and centralized purchase of goods and services--such as computer software and technical training--common to all Cajas Rurales.

USAID/Peru has supported this GOP initiative by designing and implementing a model to guide the development of this new agricultural credit system. On September 23, 1993, USAID/Peru signed a cooperative agreement with ACDI to develop a sustainable community-based "pilot" Caja Rural Cruz de Chalpon. The pilot is guided by the new approach toward agricultural lending, using a methodology that is radically different than that used by the BAP. The new lending system, as defined in the Caja Rural law, is community-based and is capitalized directly by local groups and individuals, with local lenders working directly with their owners/customers to develop individualized bankable projects. Local capital is placed at risk, giving all players a vested interest in the successful operation of the institution.

The GOP has made an important contribution to consolidation of the Caja Rural system by directing the participation of the Corporacion Financiera de Desarrollo (COFIDE) as a "second-tier" financial institution to provide "development" credits to a range of financial intermediaries, including Cajas Rurales. COFIDE's internal operating policies allow it to provide lines of credit to eligible institutions up to ten times the amount of subscribed capital, however, in practice it has not provided leverage beyond 3 to 1 to date.

In the specific case of the Caja Rural Cruz de Chalpon (CRCC), COFIDE provided it with a \$1.5 million line-of-credit in 1995 using P.L. 480 Title III local currencies. In addition, ACDI, USAID/Peru, and the MOA developed the concept of "underwriting" to allow the capital base of the CRCC to be increased during its early days. This infusion of funds allowed the CRCC to expand its

provision of loans in the region as the capital accumulation process continued. COFIDE and the Ministry of Economy and Finance (MEF) agreed to provide \$1.5 million of P.L. 480 Title III local currencies to test the underwriting concept in Cruz de Chalpon.²

2 Project Goals

The Cruz de Chalpon project is designed to develop a new model for community-based, locally-owned and managed, self-sustaining rural financial institutions. This market-oriented pilot institution is providing credit and other services that promote the development of market-responsive agricultural production and agribusiness. The coastal valley communities of Olmos, Motupe and Jequetepeque which form the original geographic base for the CRCC produce export crops and were deemed to have the base necessary to support pilot efforts designed to focus on the production of exportable products in a manner which could be used as a model to be replicated in other Peruvian communities.

The key objectives of the Caja Rural and the outreach CBE component of MSP are

- o To develop a sustainable, community-based credit institution that can efficiently finance viable development activities, and
- o To generate new sources of rural employment, rational economic development and viable, sustainable sources of income for the agricultural producers in the Olmos, Motupe and Jequetepeque valleys by introducing profitable non-traditional crops with export and/or agro-processing potential and establishing viable systems to get these products to market.

Work within the project is divided. ACDI has responsibility for development of the Caja Rural and overall implementation of the project. It provides technical assistance in the areas of finance and organizational development to Cruz de Chalpon. TechnoServe has a sub-agreement with ACDI, under which it is responsible for implementing actions related to development and/or strengthening of community-based enterprises which will access credit from the CRCC. ACDI has responsibility for overall coordination of project efforts, including maintaining a close working relationship with directors and key staff of the CRCC, implementing the Caja Rural institutional strengthening, and coordinating short-term international technical assistance. In addition, ACDI has secured P.L. 480 Title III funds to support institutional strengthening efforts in eight other CRACs. These strengthening efforts include provision of technical assistance to develop strategic plans, provision of training for directors as well as technical and managerial staff, and assistance in developing and implementing new services.

3 Purpose of the Evaluation

The broad purpose of the evaluation of the project is to assist USAID/Peru and ACDI in reassessing the overall design, and to identify strengths, areas for improvement, and specific actions that will help USAID/Peru and ACDI maximize achievement of project objectives

This independent assessment is designed to determine whether, through current configuration of activities and management methods, ACDI, USAID/Peru, TechnoServe, various Peruvian governmental agencies, and other participants involved in the project are producing the expected outputs as projected in the work plan developed in February 1994. Of particular interest are issues relating to the role, efficiency and potential of the CRCC, the effectiveness of various project interventions, and the economic impact of these interventions

4 Scope of Work

A detailed scope of work may be found in Appendix 1. A summary of this report will contain the following evaluation components:

- a. Context Analyze the context in which the Cruz de Chalpon project has been developed in relation to local environmental conditions as well as the national environment, including institutional relationships at the national level
- b. Methodology Identify the relevance and effectiveness of the original assumptions and methodology, noting areas where implementation has evolved from the original strategy and assessing the value or cost of this evolution. Identify issues or areas where further reformulation might be constructive. Assess the success or limitations of project implementation with respect to (1) technical assistance provided, (2) institutional relationships and the validity of key indicators of project success, (3) the degree to which interventions are being carried out in an environmentally sound manner, and (4) the impact of interventions disaggregated by gender
- c. Project Management Assess the adequacy and effectiveness of the various elements of project management
- d. Caja Rural Operations Assess the degree to which the Caja Rural has met the financial service needs of producers, growers and micro-entrepreneurs in the region. Analyze the structure and viability of the "underwriting" concept and the probable sustainability of the Caja Rural at the end of the three-year project period as originally projected
- e. Title III Technical Assistance Determine the impact of technical assistance provided by ACDI to eight selected Cajas Rurales to implement institutional strengthening, planning and training activities

- f CBE Technical Assistance Determine the impact of TechnoServe's technical assistance in increasing small farmers' access to credit, income, and markets Determine whether clients/small producers are using this information and technical assistance effectively

5 Methods and Procedures

The evaluation was carried out by a two-person team, which collectively possesses skills in project design and evaluation in Latin America Their full resumes may be found in Appendix 2

- o Robert Von der Ohe - senior economist/rural credit specialist Responsibilities include analysis of the context within which the Cruz de Chalpon project has been developed, analysis of project issues common to the Caja Rural and the CBEs, analysis of specific Caja Rural issues, and preparation of the final report
- o Jose Lazarte - local rural credit specialist Responsibilities include analysis of specific CBE issues, participation in determination of impact of technical assistance provided by ACDI to selected Cajas Rurales funded under Title III, participation in considerations as to whether the Caja Rural can be sustainable within three years of initial operation as planned, and preparation of a draft report on the above material

The evaluation was undertaken during the period May 19 to June 19, 1996 The team used the following data collection and interview methods

- o Review relevant project papers, contracts, and periodic reports
- o Interview the Caja Rural's Board members, staff, field officers and clients, as well as TechnoServe's staff working with the CBEs
- o Perform site visits to representative Caja Rural and CBE clientele in Chiclayo and the Olmos, Motupe and Jequetepeque valleys
- o Perform site visits to Cajas Rurales in Piura, Tarapoto, and Ayacucho, meet with management personnel and clients
- o Review financial records, management information system, and loan portfolio of the Caja Rural
- o Review information available at the Superintendency of Banks regarding the Caja Rural nationwide system and its performance relative to Cruz de Chalpon
- o Interview appropriate staff at the Ministry of Agriculture and the Caja Rural Association

A list of persons interviewed and documents reviewed can be found in Appendices 3 and 4 respectively

B CAJA RURAL CRUZ DE CHALPON - SYSTEM RELATIONSHIPS

1 Original Program Structure and Purpose

As a result of the failure of the majority of state-run financial and agricultural support institutions in the early 1990s, the system of Cajas Rurales was created. It was immediately recognized that there were several factors which could impede the success of these institutions, including

- o lack of adequately qualified management personnel and directors,
- o an inadequate lending methodology for the new operating environment,
- o a borrower culture that was not accustomed to repaying loans to state-run financial institutions,
- o lack of knowledge of marketing techniques,
- o previous availability of subsidized credit and the mentality that there were no incentives to repay loans and no penalties for failure to do so, and
- o low productivity in the agricultural sector and the high risk associated with making loans to this sector

Technical assistance provided by ACDI under the project would permit improving the capabilities of directors and management by

- o introducing lending techniques consistent with new technologies and a changed lending environment, creating a diversified portfolio, improving the number and type of credit products being offered, and
- o with the services provided by TechnoServe, improve the productive capabilities of small farmers and allow groups to begin marketing their products by creating business enterprises, thereby reducing the risks associated with lending for such activities

All the work would be done without any direct subsidies being provided to the CRCC. This was required so that the CRCC could continue to move to a point of profitability and self-sufficiency, even in the environment of high costs associated with lending to the agricultural sector, particularly to small farmers.

2 System Relationships

The project structure involves a series of relationships with outside organizations. The first key player is the Ministry of Agriculture which is the government agency instrumental in securing passage of the law which created the CRACs. The MOA was faced with a serious problem with the failure of the Banco Agrario del Peru and needed to find an innovative solution to make credit available to the agricultural sector. Once the CRAC law was passed, the MOA provided support to several of the groups which were attempting to form a CRAC, and has continued to provide indirect support to a number of institutions as they initiate operations. The MOA has had little, if any, direct

involvement in the creation and/or operation of the Caja Rural Cruz de Chalpon

The second major player in the system of Cajas Rurales is the Ministry of Economy and Finance and its "affiliate" COFIDE. COFIDE is the major funding source for Cajas Rurales and has provided underwriting funds and a line of credit to the CRCC under terms of a contract between USAID/Peru and the MEF. COFIDE appears to be generally supportive of the efforts of the project. However, it appears to have several concerns about the long-term viability of the Cajas Rurales and has developed a set of stringent policies with respect to providing funds for capital underwriting and lines of credit to the CRACs.

In the near future additional funds will become available for the system from a transfer of the MOA's small farmer lending fund (FONDEAGRO) portfolio to COFIDE to support the CRACs. The FONDEAGROs have a significant portfolio (some \$110 million) in delinquent and/or uncollectible agricultural loans. In addition, they hold some \$14 million in cash and \$15 million in fertilizers. The CRACs will be given an opportunity to collect the outstanding loan portfolio in their region and will receive a commission of 15 percent of the amount collected as an incentive to participate in the program.³ Funds collected will be placed in a revolving fund which will provide resources for capital underwriting of the Cajas Rurales, additional funds for lines of credit, and a loan guarantee fund to protect COFIDE against the risk of losses on its various financial relationships with the CRACs.

The Caja Rural Cruz de Chalpon, along with the 14 other CRACs, are supervised by the Superintendencia de Bancos y Seguros (SBS). The CRCC was recently examined by the SBS, and with the exception of data issues caused as a result of problems with the software, there did not appear to be any significant concerns raised during the visit.

3 National System of Cajas Rurales

Presently, there is no "national system" for CRACs in Peru. There are 15 independent institutions, somewhat loosely federated with the national association. A better definition of what is occurring would be something more akin to what is defined in chaos theory as a "self-organizing system." Each of the units is evolving in its own unique way with several institutions testing various legal constraints while developing their own methods of operation. The financial information presented in Appendix 5 further demonstrates these differences.

The team leader visited three other CRACs in addition to Cruz de Chalpon, including Miguel Grau in Piura, San Martín in Tarapoto, and Los Libertadores in Ayacucho. From these visits and the data, we found that there are few universally common operating characteristics, varying levels of management and director capabilities, and each institution is dealing with issues such as loan portfolio composition, savings mobilization, desires for underwriting, etc., in their own way. In addition, one of the most important ways in which the system is evolving is in terms of moving beyond the geographic limits imposed in the law.

One factor which makes comparisons difficult is that the CRACs all have been in existence for less

than three years and have had varying degrees of management and director turnover since they began operating. In addition, they all appear to be in different positions with respect to the degree of support that has been and is being provided by the MOA--support which has had an impact on software development, savings mobilization efforts and willingness to solicit support for training from Title III resources which, at least in the CRACs visited, was very well received.

In terms of a "system", there are several issues that need to be addressed at the Association level with involvement of the MOA, COFIDE, and the SBS. When the concept of Cajas Rurales was introduced in 1992, the MOA was noted to have indicated that it was likely that there would be more than 70 CRACs in Peru. There are currently 15 institutions operating, and it is unclear that even this number of institutions will be required in the long run. In addition, currently there are no well-defined measures of safety and soundness which should form the base of the annual supervision/examination program of the SBS.

The current definition of the relationships among and between the various institutions and government agencies creates a strange blend of attitudes from both the old and new models for financial institutions. The basic framework for Cruz de Chalpon which is being evaluated, as well as definitions found in much of the material relating to discussions concerning the law creating Cajas Rurales, point to a desire to have institutions which are market-driven, focused on meeting customer needs, and being forced to be self-sufficient within a reasonable time period, i.e., the new model.

At the same time, however, there are several developments which point to "business as usual." The first area relates to the various methods of financing. The underwriting program, while not unique or new in development literature, allows institutions to have additional funds to lend, as well as project a stronger image resulting from having a larger capital base. At the same time, however, the program has a series of intermediate-term safeguards such as requiring an "intermediate liquidity reserve" in the event that outstanding shares are not sold to third parties within a given time period, and introduces foreign exchange risk and the potential for decapitalization should efforts to sell the underwriting shares ultimately fail. While most CRACs which are considering the possibility of participating in the newly expanded underwriting program as it becomes available apparently understand the types of risks associated with the program, most see it as an absolute necessity to be able to expand their capital base.

The underwriting program, as well as the program designed to allow COFIDE to provide lines of credit to the CRACs, is necessary to allow expanded lending in the short run. At the same time, however, availability of these funds has reduced the pressure on the CRACs to make significant efforts to market their savings and deposit programs--programs which are one of the keys to long-term viability.

Liquidation of the FONDEAGROs--which subsequently provides funds to COFIDE to support underwriting and lending efforts, as well as to create a guarantee fund--has a component which is designed to allow CRACs to attempt to collect the outstanding delinquent FONDEAGRO loans. This program provides

- o the CRACs with the opportunity to earn a 15 percent commission on all funds collected,
- o funds which will support underwriting efforts for the CRACs not in the pilot program,
- o for creation of a revolving line-of-credit program, and
- o for creation of a loan guarantee program

Creation of a guarantee fund provides COFIDE with a degree of protection, but the system would be better served if the funds became a part of institutional capital in the form of loan loss reserves ⁴

Another vestige of the old model may be seen in the fact that the CRCC, as well as many other CRACs, require borrowers to purchase shares equal to some percentage of the loan amount. This "forced capitalization" scheme is inimical to the concept of a market-driven institution, and is at odds with the significant marketing effort which the CRCC is in the process of undertaking. Also, requiring that all borrowers purchase mandatory technical assistance at their own expense, without any monitoring of the effectiveness of the various forms of assistance, continues a process which had become ineffectual or allowed for insider payments.

Finally, the old model may also be seen in the most recent proposal for training/technical assistance that has been developed by the MOA, and a similar proposal developed by the ACRAC. Whatever the source of the proposal, it appears ill-formed relative to the needs of the potential participants, very costly, and apparently expecting donors to support the effort in return for some undefined *quid pro quo* in the MOA proposal, or in the ACRAC proposal to divide the cost of the program equally among all CRACs when it is obvious that not all will benefit equally from the program ⁵

4 The National Association of Cajas Rurales

Throughout the world, as a group of financial institutions develop there is a strong tendency for a second-tier institution, such as an association or federation, to develop. The experience throughout Latin America has been for associations to develop early, generally heavily subsidized by some donor agencies. This situation creates a dependency relationship between the association and the donor agency and often creates an environment where donor demands take precedence over meeting the basic needs of member institutions. In addition, grassroots support for the association tends to erode, particularly if the association adopts a paternalistic attitude towards its members. There is some suggestion that these problems currently exist in Peru.

Interviews with the current and past presidents of the ACRAC suggest that the organization has the potential to provide a wide range of services. The options listed are similar in nature to those provided by other organizations of this type, including public relations and image building, lobbying for legislative changes and access to external funds, training and technical assistance, economic and

financial analysis at the macro-level, and software support⁶

As the titular owner of the new software system, the Association will have the responsibility of providing assistance to the CRACs as the system is installed. It is not clear what, if any, cost there will be for this service. Being owner of a new and untried system poses some risk to the Association. If the new system does not work as well as promised, the ACRAC could well suffer serious image problems.

Information indicates that the dues structure of the ACRAC has all Cajas Rurales--independent of size and financial condition--paying the same level of dues (currently S/900 per month). Revenue generated from dues covers approximately 30 percent of the Association's expenses, with other primary revenue coming from funds provided indirectly by the MOA for the software development project. It was also stated that the Association expects to receive a 0.5 percent return on funds collected from the outstanding FONDEAGRO portfolio for the expanded underwriting project. These factors again point to an institution which is not independent from donor pressures.

ACDI is also in the process of providing assistance to the Association to develop a strategic plan. We believe that this is a worthwhile effort, however, it is essential that the process contain a detailed discussion of the roles and responsibilities of the Association and the relationship to its members. Since the ACRAC currently is operating without a manager, it will be very difficult to implement any plan in a coordinated and organized fashion.

It will be essential for ACDI to take a broader role in development of a plan of action for the Association in the next 12-15 months. Our discussions detected a sense that current ACRAC leadership takes a somewhat paternalistic approach toward member institutions, and hints at some government support for their actions. It must be clear in the planning process that the resulting product must come from the "bottom up" and reflect the needs of participating CRACs who ultimately will be expected to pay the bills. This role for ACDI was included in the original work plan for the project.

There is one further issue which needs to be discussed relative to the role of the Association. There also has been some discussion (coming primarily from ACDI) that the ACRAC structure could be used in the longer run as a place to create a second-tier bank/liquidity management institution. A suggestion of this nature is common among groups of financial institutions in Latin America. The call for development of such an institution is generally based on the premise that it can be a source for inter-lending and a method to channel external funds to participating institutions (with a revenue stream from these loans--often obtained at subsidized rates--providing income for the association).⁷

However, it is almost universally true that if member institutions aggressively market savings/ deposit accounts and pay positive real rates of interest, in the long run they are able to generate more funds than the institution will be able to lend. This creates the need to find a way to enhance the yields available from investing surplus funds. While there may be some inter-lending, the primary functions to be provided usually end up being in the area of liquidity management.

Whatever the rationale for creating such an institution, it is very unlikely to succeed if it is created within a politically-based association structure. Such institutions are generally capitalized by participating institutions who invest some percentage of their own capital base as part of the second-tier organization's capital. Those second-tier institutions which have been successful most often develop as independent units and provide a service package that can be supported by internally generated revenues.⁸

There are several preconditions which must be in place before any serious consideration is given to creating a second-tier financial institution. These include

- o a strong examination and supervision function provided by the appropriate government entity,
- o all participating institutions meeting the basic criteria found in traditional safety and soundness standards (e.g., the CAMEL system in the United States) relating to capital adequacy, asset quality, management expertise, earnings, and liquidity,
- o all participating institutions having an external independent audit,
- o all institutions having well-qualified directors and management teams, and
- o sufficient management expertise to participate fully in financial markets

These conditions are not present at the current time, thus it is premature to spend any significant amount of time talking about the development of such an institution. We have heard that the GOP is talking with the IDB about the possibility of creating some form of rural bank. Issues of this type should be closely monitored to ensure that the interests of the CRACs are included in any final discussions.

Based on discussions with individuals from several CRACs, it would appear that a meeting with an agenda designed to share experiences with respect to how the Cajas Rurales have dealt with a broad set of issues would be very beneficial in the relatively near term. If this meeting occurs, ACDI should work closely with the ACRAC to define the agenda.

C ANALYSIS OF PROGRAM ISSUES

1 Assumptions and Key Indicators

The Cruz de Chalpon Caja Rural and Community-Based Enterprise Development Project is being funded under Cooperative Agreement No. 527-0349-A-00-3338-00 between ACDI and USAID/Peru, signed on September 23, 1993. The project was developed from an unsolicited proposal prepared by ACDI and was designed to create a pilot effort for the Caja Rural Cruz de Chalpon. The three objectives of the project include

- (a) The development of a model Caja Rural, i.e., a sustainable, community-based credit institution that can be replicated in other areas of Peru
- (b) The formation of a local, privately-run rural credit system that fulfills many of the agricultural communities' credit needs in the absence of government and other private sector institutions

- (c) An increase in Peru's agricultural exports, productivity and profitability in the agricultural economy, and rural employment and income

The original work plan created an expected time line for interventions which was based on the assumption that the SBS and other participating agencies would grant a variety of approvals according to the schedule detailed in the work plan. The fact that approvals were not granted as anticipated has caused a set of problems for the project that will be discussed elsewhere in this report.

The basic interventions to be conducted within the project include

for ACDI

- establish the Caja Rural
- negotiate intra-institutional agreements
- assist in identifying credit demand beyond agricultural production
- provide management assistance to the Caja Rural
- examine financial services in addition to lending
- provide assistance in shaping a national Caja Rural strategy

for TechnoServe

- conduct an inventory of CBE clients
- identify priority agricultural, commercial and agro-industrial products and services, and evaluate domestic and international markets for these products and services
- assist in the establishment and management of CBEs and develop business training and practical assistance to each CBE in business planning, marketing and other management issues
- provide farmer education and extension services

The project work plan included a number of indicators with indicated dates for completion. As noted earlier, the failure to obtain necessary approvals for the creation of the Caja Rural Cruz de Chalpon at the expected time caused a significant delay in many of the actions which were expected to be completed during the first 12-15 months of the project's existence. When measuring results on the basis of the CRCC's effective operation of less than one year, this would suggest that ACDI has accomplished the functions outlined with the exception of

- o Item F (1,2,4) - National CRAC Strategy (given the basic structure of the underlying industry, this may well have been premature in any case),
- o Item B (4,5) - Inter-Institutional Agreements (again premature), and
- o Item D (5) - Asset/Liability Management (proposed elsewhere in the report to be an integral part of technical assistance in the first phase of any project extension)

The TechnoServe portion of the project has been in operation for a longer period of time. However, given the fact that its first project director chose to live in Lima rather than in Chiclayo, there was a significant amount of relatively unproductive time early in the project time frame. There are several

areas where it is not clear that TechnoServe has completed the expected outcomes if we assume that it has completed its second year within the project framework

The project was budgeted for \$2.8 million with an additional \$3.0 million being provided to the CRCC to establish a guarantee fund/underwriting/line-of-credit operation with COFIDE

2 ACDI and TechnoServe Relationships and Coordination

The plan which underlies the USAID/ACDI Cooperative Agreement--within which TechnoServe is a sub-contractor--requires that farmer organizations in the Olmos, Motupe and Jequetepeque valleys present agricultural plans in which traditional crops, which currently predominate but whose earnings do not compensate adequately for the investment needed for increased production, be replaced by new crops which would permit the farmer to obtain a better financial return

The limitations which these producers face are lack of a credit system that addresses financial needs associated with the introduction of new crops, absence of research on export crops that would permit their development, and inadequate procedures for marketing

In order to overcome these limitations, the project proposed to develop diverse, concurrent activities to implement a comprehensive economic plan (a) provide technical assistance based on the results of TNS' research, (b) enlist cooperation of agricultural enterprises that would have the capacity to compete in national and international markets, (c) market the resultant products of the project, and (d) organize a Caja Rural that would provide financial resources required to implement the plan

a TechnoServe Activities before the CRCC

Before the sub-agreement with ACDI was signed, TechnoServe was promoting development in the Jequetepeque valley. Its initial work involved the preparation of an agricultural plan which would provide an alternative to rice production that consumed much of the limited water resources as well as contributed to the depletion of the soil.⁹

The best example of the TNS effort is the rural community of Chepen, with a farmers' organization of 700 members with 5,000 hectares of land. In February 1993 the Agricultural Producers Committee was formed.¹⁰ TNS programmed the installation of 100 hectares of pole beans which, due to lack of financing, did not prosper. In addition, it prepared a plan for rehabilitation of irrigation infrastructure for \$250,000 with funds to be provided by FONCODES. However, this funding was not approved.

Besides beans, the TNS program included tanguis cotton which enlisted the participation of the textile company FIJESA in financing \$331,000 for 330 hectares for the April-June 1994 crop. The contract was comprised of three legal agreements: one between TNS and FIJESA for technical assistance to the producers, one between TNS and the farmers' organization for administrative assistance, and one between FIJESA and the lending agency for credit.

In accordance with the contract, FIJESA financed labor, machinery and fertilizers, with the purchase price of cotton being fixed at \$75 00/cwt. Two events blocked the success of this effort: fertilizers were not provided in a timely manner, coming at an advanced stage in the season, and the price of cotton increased to \$115 00/cwt, considerably above that established in the financial contract. The result was that producers stopped sales to FIJESA, which did not wish to readjust the contract price upward. This created an impasse which resulted in a debt to FIJESA of \$120,000 that is currently in litigation. Since April 1995 TNS has had no relationship with the farmers' organization.

In addition to this experience, other fruitless efforts can be cited, although of lesser impact, in four production groups--Santa Catalina Association, Tomas La Fora Cooperative, La Calera Cooperative, and Huaca Blanca Committee. With the exception of FIJESA, no financing has been obtained that would facilitate any change in traditional cropping patterns, which was TNS' stated goal in the Jequetepeque valley.

b Organization of the CRCC

The CRCC effort emerged from the initiative of farmers and rural agribusiness in Motupe, with the relationship with the SBS beginning in June 1993. The proposed area of operations included the localities of Jayanca, Motupe and Olmos.

ACDI assistance to the organizing commission of the CRCC began in February 1994 with the implementation of specific efforts that would allow the CRCC to begin operations within six months. Although studies conducted by the SBS which analyzed the feasibility of and obstacles to the accumulation of a minimal level of capital (S/500,000) by the organizers led to the determination that such a short time frame would not be realistic, thanks to ACDI technical assistance the process of establishment of the CRCC was accelerated by refining the study, convening potential investors, and broadening the geographic base of the CRCC.

The formal establishment of the CRCC passed through the following stages:

- o On May 19, 1994, by Resolution 326/94, the SBS authorized the organization of the CRCC to serve the areas of Olmos, Jayanca, and the Chochope and Salas districts of Motupe in the province of Lambayeque.
- o On January 31, 1995, by Resolution 213/95, the CRCC was provisionally authorized to operate in the entire department of Lambayeque and in part of the department of La Libertad in the provinces of Pacasmayo and Chepen.
- o On March 6, 1995, by Resolutions 728/95 and 730/95, the SBS authorized the opening of branch offices in the Motupe and Chepen Districts.

The CRCC opened for business on March 27, 1995, 21 months after the proposal was originally submitted to the SBS. The capital base was S/744,060 comprised of 74,406 shares purchased by 433 individuals and organizations, of which four major institutions provided 55 percent of the contributions (the community of Chepen contributed 8,600 shares, or 11.56 percent of the total) ¹¹

c ACDI-TNS Relationships

The relationship between ACDI and TNS has gone through two stages, the first to September 1995 and the second after that date. In the first stage the relationship between the parties was inconsistent for two reasons. TNS did not accept its dependency on ACDI as the primary contractor and TNS did not have an executive presence in the project area.

In the second phase TNS proposed a revised area of action and located an executive in the project site. In this phase the relationship with ACDI and, by extension, with the CRCC has been facilitated, while not yet formalized. Consequently, in the last quarter of 1995, an agreement was reached to hold monthly meetings.

Even with the observed deficiencies, it is important to point out that since September 1995 TNS has promoted the CBEs, reorienting its efforts to the Olmos Valley and reconstructing the work in the Jequetepeque valley.

D ANALYSIS OF CAJA RURAL CRUZ DE CHALPON

1 Staffing and Structure

An organization chart for the CRCC may be found in Appendix 6. In reviewing the structure and credentials of the various individuals employed by the CRCC, it would appear that those holding management positions are well qualified according to training and previous experience. There is concern, however, that the salaries paid by the CRCC are relatively low in comparison to the local market, and thus there is some potential for turnover. In addition, the CRCC has had some difficulty in hiring experienced loan officers and is in a position where they must hire entry-level personnel with potential which, in the short run, limits the ability to expand the loan portfolio.

During the period of our visit, the CRCC reorganized the loan granting function. A new organization chart is not yet available, however, we believe that the changes were positive in enhancing the productivity of the function. The primary change was to split the functions of the loan officer (i.e., credit granting) and loan administration. This will allow for increased specialization and division of labor. We believe, however, that there is an additional change which needs to be considered in the near future, that of creating a collection function for delinquent loans ¹²

2 Financial Considerations Comparative Analysis of the CRCC with other CRACs

a Evolution of the CRAC Initiatives

The idea of establishing Cajas Rurales began to materialize in 1991, at first following the concept of associations. However, as the Agrarian Bank was deactivated in early 1992, a higher level of organization was developed by the Ministry of Agriculture and regional governors. The process was consolidated with the enactment of Decreto Ley 25612.¹³

Decreto Ley 25612, Guidelines for Cajas Rurales, was issued on August 1, 1992, and constitutes the legal framework that authorizes the organization and operation of CRACS. They have the legal status of limited enterprises and are authorized to handle savings and deposits in their area of operations. They form part of a secured fund of deposits and in general operate under the same rules as those of commercial banks.

This legal decree prohibits the organization of Cajas Rurales as "credit unions", "craftshops" and "communes", forms that were popular in the 1970s and which conformed to specific norms of organization, operation and functioning, these were organized as associations (since they were non-profit), and thus were not authorized to handle savings and could only loan their own capital and that of third parties as long as the latter came from a borrowing operation.

Decreto Ley 770, General Law of Banking, Finance and Insurance Institutions, was issued on October 30, 1993, and fully incorporated the Cajas Rurales. They are characterized as "entities", a category which also includes Cajas Municipales--institutions authorized by the SBS--as well as EDPYMEs (private credit intermediaries). In the category of "enterprises" are banks, financial institutions and other economic agents who participate in capital and bond markets. The difference could be useful were it not for the fact that in the case of Cajas Municipales there are "small" entities authorized to operate in 10 of the 26 operations overseen by multiple-operation banks.

Table D 1 in Appendix 5 shows the general progress of the CRACs to date. As can be observed, 28 initiatives are tracked with a variety of components and three levels of achievement: in operation, being organized and in the process of obtaining organizational license from the SBS. Two characteristics stand out. For those CRACs currently in operation (15), the time required for approval is quite lengthy--19 months on the average. Likewise, 50 percent of those who have an organizational certificate and are pending approval by the SBS have little possibility of completing the process in the allotted time frame of 24 months. The slow maturation of these initiatives may be due to the following factors:

- o The majority of these applications did not have the minimum capital required by Decreto Ley 25612 (S/150,000--the equivalent of \$116,000--in August 1992). The result was that the SBS, following the guidelines, recommended an initial capital investment of S/500,000 which was considered a minimum in the banking laws of October 1993.¹⁴ This delay--in some cases up to six months just to initiate the process--could have been avoided if the SBS, when the

decree had first been enacted, had communicated to the CRAC executive board the minimal capital necessary to apply for a permit

- o The initiatives channeled through the SBS in 1992 and 1993 were largely spawned by the state (Ministry of Agriculture and regional governors) which demanded tangible results to justify the model. This engendered expectations on the part of the organizers who insisted that the government transfer its resources (FONDEAGROs, FONAFOP, assets of the Agrarian Bank, coffee funds, etc.) to the CRACs in order to complete the social capital which could not be raised on their own, thereby confusing the role of the state as promoter with that of a private business such as a Caja Rural
- o Lastly, at least between 1992 and 1993, the SBS demonstrated that it was not prepared to evaluate these proposals, possibly because its framework and/or efforts focussed on banking and financial enterprises rather than on the CRACs. Additionally, there existed in the SBS a strong reluctance to authorize these modifications given the risky nature of agricultural activities and the nature of the organizers (mainly producers)

b CRACs and Financing of the Agricultural Sector

In Decreto Ley 25612, reference to agricultural credit and its relationship with the CRACs is implicit, establishing that the CRACs undertake financial intermediation in support of economic projects developed in their areas of operation (Art. 2) and indicating that the FONDEAGROs would be deactivated on December 31, 1993.¹⁵ These references infer the priority that is given to the CRACs in attention of financial requirements of the bill, however, the feasibility of such a proposal can be questioned, considering the need to protect financial resources made available to the CRACs

Making use of a theoretical exercise, Table D 2 has been prepared to demonstrate the possibilities of agricultural financing in the areas of influence proposed by the CRACs. Taking as a reference point Article 33 of Decreto Ley 25612¹⁶, and assuming an average investment of \$300/hectare, one arrives at approximately 187,000 hectares that represent 32 percent of the agrarian market of the 15 CRACs in operation. However, in real terms, and considering the statistics to February 1996¹⁷, it could be determined that 20 percent of the allocations to the agrarian sector would correspond to subsistence agriculture covering two percent of the agricultural loans of the CRACs' system

c Economic-Financial Situation of the CRACs

In order to examine the economic-financial performance, a set of indicators that are commonly used in the banking business has been formulated. Information is based on financial realities--balance sheets and profit and loss statements--of each CRAC. Results have been prepared for the periods December 1995 and February 1996 and are presented in Table D 3. In order to better illustrate the case, indexes from commercial banks¹⁸ and Cajas Municipales¹⁹ have been used

(1) Intermediation

Implementation and utilization of market resource capacities--deposits and credit lines--are evaluated for their respective allocations. As a group, the CRACs have significantly increased their level of intermediation from 85 to 96 percent in the period under study, attaining a level superior to that observed by commercial banks and the system of Cajas Municipales. This could be explained by the recent incorporation of these initiatives, with the capital available²⁰ raising the relatively low volume of loans, with the capture of savings being slow. The CRAC with the best intermediation is Cruz de Chalpon while Señor de Luren has the best index.

(2) Quality of the Portfolio

The portfolio of a financial entity is composed of loans which are outstanding and/or delinquent, the latter being written off after the fourth month, including those that are currently in legal collection. As a group, delinquent loans as a proportion of the total loan portfolio of the CRACs are around 13 percent, more than those observed in commercial banks and in the system of Cajas Municipales. If the CRACs are grouped as "old" (those in operation before December 1994, of which there are 9), the delinquency index of these rises to 20 percent, while the "new" (the remaining 6) have seen an increase in their delinquency rates of 5 percent in December 1995 to 8 percent in February 1996.

Looking at the CRACs which are the "oldest", there is 54 percent delinquency in Tumbay and 45 percent in Valle Rio Apurimac. On the other hand, the lowest rates are in Quillabamba with one percent delinquency, and in Selva Central with three percent delinquency. In the "new" cajas, it is noteworthy that Miguel Grau had a delinquency rate of 23 percent in February 1996.

In summary, the quality of CRAC loan portfolios is not good, Quillabamba, Selva Central and, to some extent, Del Sur are exceptions to the rule.

(3) Profitability

It is necessary to generate profits in order to meet the expectations of shareholders to make a return on their investments. As a group, the CRACs demonstrate a decrease of profitability from seven percent in December 1995 to four percent in February 1996. The decline can be explained by the performance of the "old" CRACs, since they showed a decline from 15 percent to four percent between these dates. The best performance was in Del Sur with 26 percent and Mantaro with 14 percent.

It must be noted that CRACs with loan collection problems--like extreme cases of Tumbay and Valle Rio Apurimac--have not been following necessary provisions so that the losses they incur pull down the performance rating of the system in general.

(4) Administration

The quality of administration is determined by looking at cost management in relation to income, following the guidelines that the SBS establishes for costs and financial income ²¹ Generally, expenses were 53 percent of income in December 1995 and 39 percent in February 1996, showing a healthy reduction in that time frame, with the latter representing a figure lower than that of commercial banks and the system of Cajas Municipales If only the 9 "old" CRACs are analyzed, expenses were 64 percent in February 1996, higher than in December 1995 when they were 58 percent This leads us to conclude that the improvement of the figure is due to the impact of six new CRACs--with the exception of Miguel Grau--even though Chavin, Valle Rio Apurimac and Tumbay have difficulties resolving their operational costs through financial intermediation These four CRACs are the only ones that showed losses in February 1996

d Participation in the Market

The CRACs are authorized to handle time and savings deposits from the public according to the guidelines in the pertinent legislation This permits them to obtain resources for financial intermediation in development of economic activities in their operational areas ²²

In order to measure the rate of involvement in this market, information from the SBS has been analyzed according to the evolution of deposits captured by commercial banks and by each CRAC in its respective area In Table D 4 the involvement of the CRACs in their areas is shown On the whole, their participation went from 1 4 percent in December 1995 to 1 2 percent in February 1996, which demonstrates a slight decline in the limited penetration of the savings market in spite of the fact that, as observed in the same table, savings in the places that the CRACs operate have evolved favorably in real terms showing an overall expansion in February 1996 with respect to December 1995 ²³

Returning to Table D 4, in spite of the weak penetration into the savings market, the Selva Central and Del Sur CRACs are somewhat stronger than others, and have had good financial-economic performance as well

In summary, key elements in the financial position of the CRCC include

- o a relatively low (but rapidly increasing) delinquency rate in the range of 13 percent This is a "true delinquency rate" as the institution does not allow for loan refinancing The directors are cognizant of the problem and are moving to take steps to bring the rate down to 5-6 percent over the near term ²⁴

- o a low percentage of liabilities to equity in the form of savings/deposits This appears to have been deliberate as other development issues took higher priority in the early months of operation The CRCC has developed a savings mobilization plan to be implemented in the very near future which includes a variety of savings options, and paying competitive rates to attract funds
- o a low level of loan loss reserves This is a problem common to all CRACs The relatively small size of the institutions has caused operating margins to be low since the institutions have not yet reached a size where they can achieve any reasonable level of economies of scale This indicates that the capital base is directly at risk in the event of loan losses of any significant magnitude ²⁵
- o loan growth has held up reasonably well even with the general recession in the economy

3 Ability to Meet Client Needs

During the evaluation process the team visited with several clients (see Appendix 3) and reviewed a series of loan documents (see Appendix 7) ²⁶ This process included an analysis of the various types of loans granted by the CRCC, as well as delinquent loans There was near universal agreement that the CRCC was meeting the basic borrowing needs of its clients, and for many represented their primary, if only, source of credit There was agreement that the loan officers were effective in dealing with the clients in the loan supervision process In addition, there was common consensus that borrowers would continue to borrow at the CRCC, and were looking forward to being able to increase their credit limits as they repay their outstanding loans ²⁷

There were, however, a series of issues raised concerning problems that were being faced by certain borrowers, including

- o a slow and sometimes cumbersome loan approval process (the recent reorganization is designed to make improvements in this area),
- o very strict credit terms--including rates slightly higher than those available from local banks (for those with potential to access that market)--higher commissions, very short maturities, and no refinancing of loans,
- o a positive attitude toward the ability to increase outstanding loan balances, but concern with the relatively slow rate at which the limits increase,
- o concern that a commission was charged for each loan, while borrowers were also expected to add to their capital subscription as a condition of obtaining a loan,
- o concern over the unwillingness to make loans without a real property guarantee,
- o a significant need for loans with longer maturities,
- o the need for more small business loans,
- o concern with the requirement for mandatory technical assistance, and
- o the need for checking account services

The law requires that CRACs have guarantees (i.e., collateral) for all loans made. The CRCC's policies generally require a real property guarantee with coverage of 1.5-2.0 times the amount of the loan made. Presently, more than 90 percent of the portfolio is covered by this type of guarantee which provides a degree of "safety" for the institution. However, it can--and we believe it has in the case of the CRCC--cause a false sense of security for the lending process.

In the financial marketplace, use of collateral as a form of protection for the financial institution is a "last resort".²⁸ The key source of protection for the institution is a well-designed loan underwriting process. ACDI personnel have provided the CRCC lending staff with a significant amount of hands-on training in this area, however, it is something which must be reinforced and expanded, primarily to provide the staff with a better understanding of the process of determining the ability to pay out of cash flow expected from the operation being financed. In a sense, we are dealing with the "art", rather than the "science", of making good loans.

It is our opinion that current procedures which move quickly to the legal process and do not consider refinancing, while perhaps necessary in a world where a pervasive culture of unwillingness to repay loans exists, are not likely to serve the CRCC well in the long run. Staff will need to gain experience in determining when, and under what conditions, it is appropriate to develop a "work-out plan" for a borrower who is experiencing problems, and when to place the loan in collection--with well-defined collection procedures in place.²⁹

The SBS has a loan classification guide in place which indicates the type of reserving which is necessary for loans which are delinquent. GAAP (and similar methodologies) require that the value of an asset found on the balance sheet should reflect its probable market value. It would appear that this is not the case for CRACs in Peru at the present time. The CRCC needs to analyze its loan portfolio and make necessary adjustments (i.e., in the form of an allowance for loan losses) for the amount of loans that could reasonably be expected to be charged off. This amount can be determined currently by a careful analysis of the loans in the portfolio, and, in the long run, estimates can be derived from historical averages. In the current environment, any expected charge-offs (in excess of reserves) would have to be charged directly against current earnings or ultimately institutional capital. Over the long run any changes in the loan losses allowance account would represent a charge (i.e., an expense) against the earnings of the current period. Failure to account for expected losses in this manner causes current earnings to be overstated and provides an overly optimistic picture of the strength of the CRCC. This, again, is a situation common among all CRACs.³⁰

The CRCC is hopeful that it will be able to respond to the demand for more small business loans in the near future. It has prepared a funding proposal which is now before the Andean Development Corporation (CAF) which is designed to facilitate its expansion in this area. This would allow the CRCC to further expand agricultural lending and still maintain a well-diversified portfolio. It will be essential that appropriate management and staff personnel of the CRCC receive the training necessary to implement the program in an efficient manner. Care should be taken to ensure that the availability of these funds does not cause management to become complacent and reduce savings mobilization efforts.

4 Relationships With Key Institutional Participants

The project calls for ACDI and the CRCC to maintain relationships with a number of participating government agencies and private institutions including MOA, MEF/COFIDE, SBS and ACRAC. Our analysis suggests that there are a number of areas where friction occurs below the surface in what might otherwise appear to be harmonious working relationships. It would appear that the MOA, while claiming not to be "directly informed" about what is occurring at the CRCC, has somewhat of a vested interest in having the project be less than completely successful. There is little doubt that the process which led to the formation of the CRACs was "political" in nature, and that the MOA was the driving force in the process. Throughout the early stages of development, the MOA was instrumental in providing assistance to groups attempting to form CRACs and still has significant direct contact with many directors and managers. There appears to be some concern because the CRCC is outside of any effective control by the MOA. While there is the claim that the MOA is suggesting that CRACs "must become more independent", many of their actions, including the most recent proposal to provide training, suggest a strong desire to maintain a degree of dependency on the MOA.

MEF/COFIDE is the primary provider of funds to the CRCC in the form of capital under-writing and a line of credit to fund loan portfolio expansion. While COFIDE appears willing, albeit grudgingly, to provide the funds required by its contractual relationships, it would appear that it has general concerns about the riskiness of Cajas Rurales. Funds are somewhat readily available in the current environment, and will be expanded as the FONDEAGRO collection process begins in the near term. If the CRACs ever expect to become relatively independent, they will need to develop alternative borrowing sources in the private and/or international sector.

The SBS appears to be doing a reasonably good job in the supervision/examination process. Its recent visit to the CRCC indicated no serious problems. However, it appears that the SBS currently does not have the resource base necessary to provide what is needed in this area in the long run. We believe that it is time for the SBS, in conjunction with the Cajas Rurales (perhaps with participation by but not directly with the ACRAC)³¹ to begin discussions on the development of a set of financial parameters akin to the CAMEL system used by financial institutions in the United States which can provide a measure of financial strength and serve as an "early warning system" for detecting problems. ACDI should be a full participant in this process.

The CRCC participates in the activities of the Association, however, there does not appear to be a strong link between the Association and the project. It would appear that the primary reason for lack of strong ties is the fact that there is apparent competition between certain aspects of the project and the desires of the ACRAC to expand its service offerings. The most obvious area of competition is in the area of training and technical assistance. In addition, ACDI (as do the members of the project team) has serious concerns about the ability of the ACRAC to deliver a viable software product.

5. Impact of Title III Technical Assistance on Participating Cajas Rurales

In late 1994, ACDI prepared a proposal designed to provide technical assistance and training for the directors of eight CRACs. This program was funded with approximately \$130,000 with a duration of nine months.³² The basic concerns discussed in the project paper included

- o there still was little public confidence in the Cajas Rurales which limited the ability to sell shares and attract savings/deposits,
- o the majority of directors were agricultural producers or were related directly or indirectly to providing services to the agricultural sector and had little knowledge of or experience in finance or banking,
- o low levels of capitalization limited the CRACs' ability to grow since the ability to obtain resources from institutions such as COFIDE was tied directly to capital,
- o borrowers had little experience in dealing with market-based credit,
- o there was a need to further diversify the credit portfolio to reduce both risk and the cost of granting loans, and
- o the Cajas Rurales offered a very limited service package

The basic components of the proposal were to

- (a) provide assistance to directors in the area of financial administration, including understanding basic financial documents and preparation of a budget,
- (b) provide assistance to the CRACs in preparing a strategic plan and operating plan, and
- (c) provide assistance to operating personnel in terms of how to manage a rural financial institution and better evaluate loan applications

The evaluator reviewed original profiles prepared on the participating CRACs and also reviewed several of the resulting planning documents. In addition, there were meetings with three technicians who provided the actual assistance. The evaluator also met with directors and management from three of the participating CRACs.

The first observation is that the conceptual design of the training and technical assistance program was well done. It provided participants with sufficient background information to begin to understand the concepts being discussed and then provided a "hands-on" participatory experience which further enhanced understanding. The training experiences were well spaced, giving participants time to digest the material presented before going on to something new. In addition, individuals receiving instruction/support were able to have regular contact with those providing training/assistance. There was general agreement that the assistance provided was of high quality and of a nature that provided participating CRACs with information that would support their plans for growth.³³ At the same time, however, on a more profound level, if the program ends as planned in the near future, the technical assistance which has been provided to date is not likely to have the

desired and/or expected long-term results The reasons for this dichotomy include

- o many of the participating CRACs have experienced significant turnover in the composition of their boards of directors, and there has not been time to develop an institutional history concerning the processes introduced, and
- o the material was new to participants and, even with this effective training technique, it is difficult to fully incorporate all the necessary elements the first time through

To strengthen the probability of long-term success for the CRACs, we believe that this program, in a modified manner, should be continued for another 12-15 months³⁴ The turnover problem suggests that some of the participating CRACs might need to have a "review of the basics" Our analysis suggests that there are several areas where both the CRCC and the other participating CRACs could benefit, including

- o intermediate financial management tools for managers and staff
 - asset/liability/capital management
 - liquidity management
 - risk management and fraud control
 - joint ventures and leasing
 - foreign exchange risk,³⁵
- o capital acquisition and savings mobilization
 - developing and marketing programs to attract new funds
 - types of accounts and consumer preferences
 - legal considerations,
- o implementation and modification of strategic plans, and
- o lending issues defined above for the CRCC

One issue that must be addressed is that the various CRACs are at varying stages of development An initial audit will need to be performed in order provide at least a partially customized program for each CRAC

There is another possible consideration in this area There are at least two CRACs that are experiencing significant problems of the magnitude that could lead to failure It would be reasonable to begin a dialogue with the SBS to see to what degree they might be willing to support a "collective intervention" in order to attempt to improve the operating characteristics of these institutions, either to improve their financial condition to an acceptable level or prepare them for further "work-out" efforts and/or mergers, if necessary

In any case, this assistance is of significantly better quality than those being suggested in recent proposals prepared by the MOA and the ACRAAC Those proposals utilize the traditional seminar format which is ill-suited for dissemination of this type of complex information In addition, the cost of the programs appears to be dominated by costly "overhead" expenses which would duplicate many of the expenses currently covered in the core ACDI project

6. Information System

The "software problem" is one that is common to all CRACs, including Cruz de Chalpon. The original system appeared to be generally acceptable until participants discovered a series of apparently random "glitches" in system output. These problems have made it very difficult to comply with SBS reporting requirements in a timely manner and do not enhance the public image of the CRACs as errors are discovered.

As noted above, ACDI's proposal for Title III funding for technical assistance was modified to provide funds to the MOA for development of a new software system. The MOA, in turn, provided a portion of the funds to the Association which has participated fully in the development process. On its face, the political nature of this decision suggests the potential for serious problems. The MOA began dealing with a local software development firm with little experience in financial institution software. The MOA then placed the ACRAC in charge of monitoring software development efforts.

Conversations with ACRAC personnel indicate that the software development effort has two stages. The first stage includes development of three components (loans, savings, products) which will be integrated in the final package. Each component will be tested on a pilot basis as it is developed before installing the system in the rest of the CRACs³⁶. The second stage is designed to create a national network for the system with on-line access to information in a manner similar to that of the country's banking system. No one was able to provide any cost estimates for operating such a network.

7 Analysis of the Impact of Underwriting

The concept of capital underwriting is not unique to this project. However, application has proven to be very beneficial to the Caja Rural Cruz de Chalpon. The underwriting program is based on an agreement between the CRCC and COFIDE to provide the CRCC with \$1,500,000 in capital infusion in two tranches--\$1,000,000 on signing the letter of understanding and an additional \$500,000 when the first tranche is repaid. At no time will COFIDE hold shares in more than a 3 to 1 ratio with respect to the CRCC's own institutional capital. The CRCC receives a dollar denominated infusion and COFIDE purchases shares in the CRCC denominated in new soles with each share having a nominal value of S/10.00. The CRCC has a period of three years in which to sell the COFIDE shares to third parties. At the end of that period, any unsold shares must be repurchased by the CRCC. The funds must be repaid to COFIDE in dollars with money for any shares sold being transmitted to COFIDE within 48 hours after the shares are purchased by investors.

This capital infusion has provided the CRCC with a source of inexpensive funds with which to generate needed earnings, and has allowed it further leverage by increasing its borrowing capabilities. As is noted in the following section, we believe that a CRAC will need a minimum capital base of \$1,500,000 to be viable in the long run, and to the degree that the CRCC is able to sell these shares, it will have reached a minimal level of capital adequacy. To date the CRCC has been able to sell approximately 33 percent of the outstanding shares and is initiating an extensive marketing program.

using an outside broker for support designed to sell the remaining shares. It would appear that this plan has a very high probability of success.

Thus, it would appear that the CRCC has a component that is replicable. The MOA and COFIDE are ready to allow the CRACs to collect the delinquent FONDEAGRO loan portfolio. One key element of this program is to provide funds to expand the underwriting program to additional CRACs. Two points of caution should be introduced relative to this approach.

First, most CRACs see the positive aspect associated with the ability to obtain additional resources to expand their lending. They are somewhat less concerned about the problem which will arise if they fail to sell the COFIDE shares to third parties. At the end of the three-year period, if there are unsold shares, the CRAC will, in effect, have to decapitalize, and most likely be forced to reduce its loan portfolio to obtain the funds necessary to repay COFIDE.³⁷

Second, there is an element of potential foreign exchange risk. The CRCC has dealt with this issue in an interesting fashion. New investors are required to pay a premium for their shares based on the difference between the exchange rate at the date of original issue and the current exchange rate.³⁸ There is a portion of the exchange rate risk that appears to remain uncovered. The degree to which there is a problem will depend on the portfolio structure of the CRAC. At this point, it would appear little attention has been paid to this problem.³⁹

The key risk associated with the underwriting program is that a CRAC may not be able to sell shares in an amount sufficient to repay COFIDE. Thus, it is crucial that each CRAC assess market potential for the sale of shares before it agrees to participate in the program.

8 Banking Competition

The banking system in Chiclayo is very dynamic. Events over the last five years have created an environment where banks are responding to pressure resulting from higher costs for funds, increased foreign competition, large borrowers having direct access to financial markets, and increased pressure on margins. One result of these changes is that banks are becoming more competitive in the agricultural sector. In the Chiclayo region, banks are lending to farmers who have title to 20 hectares of land (and in special cases, 10 hectares planted in sugar cane). They are also lending to feedlot operations with between 60-400 head of cattle. For some borrowers they are financing 50 percent of the purchase price of land, and in some cases providing technical assistance (supported by international funding). It is clear that they are providing services to a group of producers that might have been expected to be among the best customers of the CRCC.

Banks are also mounting an aggressive program to capture savings, both in Chiclayo and in outlying areas where they have branch offices. Given the image problems discussed elsewhere, this will make it more difficult for the CRCC to be successful in its savings mobilization efforts--except in those areas where there is little or no bank presence (e.g., in Jaen).

9 Long-Term Viability of the Caja Rural Cruz de Chalpon

The question of self-sufficiency has several components. The term itself can deal with a matter of degree. Presently, the CRCC is able to generate positive earnings and cover the cost of funds and general operating expenses. It is not, however, building reserves in an adequate fashion, nor is it paying a dividend to owners. This is not unexpected for an institution that has been operating for less than a year. Key elements which are causing problems for the CRCC are generally common to all CRACs, including

- o operating expenses are a very high percentage of earnings. This is a function of scale. In addition, the lending process has been relatively inefficient.
- o a very low level of relatively low-cost savings/deposits as a percentage of total liabilities ⁴⁰
- o net earnings are insufficient to create an adequate level of reserves, or to absorb creation of a minimal allowance for loan losses.

We believe that the issue of financial self-sufficiency can be addressed by analyzing the question of capital adequacy. Under the law, the minimum capital requirement for a Caja Rural is \$500,000. Analysis indicates that this level of capital, given reasonable assumptions as to leverage, operating expenses and interest rates, is insufficient for a CRAC to attain self-sufficiency in the long run. The analysis found in Appendix 8 indicates that with a capital base of \$1,500,000 a CRAC should be able to attain a level of earnings sufficient to cover expected expenses (including loan charge-off), pay market interest rates for deposits, pay a reasonable dividend on invested capital, build loan loss reserves, and make some additions to retained earnings. The analysis further indicates that with a capital base of \$2,000,000, reasonably well-managed CRACs would have no problem in being self-sufficient, even under the broadest definition of the concept.

There are other more intangible factors which also point to a high probability of long-term self-sufficiency for the CRCC, including

- o its success at introducing market disciplines into the lending process in target groups which have been defined as one of the most difficult in the country with respect to traditional behavior of expecting the government to eventually "nationalize" their debt ⁴¹
- o introducing the discipline of market-based interest rates for loans and savings ⁴²
- o the ability to participate in the FONDEAGRO program which will provide additional income in the short run and gain skills in collecting bad loans which will serve the CRCC well in the long run
- o developing a management team that is close to being able to effectively and efficiently deliver the basic service package
- o hiring an internal auditor
- o creating a pool of very satisfied borrowers

10 Desirable Changes to the Caja Rural Law

The current law has several limitations which inhibit the ability of the CRAC system to develop in a rational manner. Key among the issues raised are

- (a) **Geographic Limitations** - The law allows a CRAC to only serve one department in the country, much akin to the state banking laws in the United States. This limitation is based on outdated thinking and does not reflect the regional "business relationships" and transportation patterns. The SBS has been reasonably free in granting limited exceptions to the rule, but the system would be better served if the law more closely reflected reality and allowed institutions to serve contiguous areas that had demonstrated potential and were not being served by another CRAC. [This limitation created a situation where several CRACs were left in a position of not being able to develop an adequate capital base or to develop the necessary scale for efficient operations.]
- (b) **Five Percent Lending Limit** - The law limits a CRAC to make no single loan in excess of five percent of its own capital. This is an artificial constraint that makes it next to impossible for the CRAC to make agri-business or agro-industry loans, i.e., relatively larger loans which are significantly less costly to make and process. We believe that a limit of 10 percent of capital would be more appropriate.
- (c) **Fifteen Percent Ownership Limit** - Changing this provision would have the likelihood of fundamentally changing the characteristics of the CRACs, creating the strong possibility of individual control and bringing with it moral hazard questions (currently existing in some CRACs—e.g., insider lending) and placing current investors in a disadvantaged position. Most large investments to date appear to have been made as much for a "quasi-social purpose" or to support improving the capabilities of firms and farmers which supply the investors. We believe that this section of the law should not be changed.

E ANALYSIS OF THE CBES

1. Organizational Profile

In order to obtain a profile of the organizations established by TNS, four criteria were used

a Farm Size In general, producers assisted by TNS are micro and small farmers,⁴³ with average farm sizes of seven hectares in Jequetepeque, six hectares in Motupe, and three hectares in Olmos.

b Crops In Jequetepeque annual crops dominate (legumes, corn and vegetables), in Motupe crops are mixed among annuals (legumes and corn) and perennials (mangoes), and in Olmos the crop is perennial (lemons).

c Legal Status of the Land In Jequetepeque there is a mixture of land ownership (of which 20 percent is not registered), divided between private ownership and communally-held land. In Motupe the producers are land owners but not subject to credit because of prior outstanding loans. In Olmos lands are commonly held with no private property. As a result, groups served by TNS are not able to offer any real guarantees.

d Organization In general, all of these institutions are very young, having been created by TNS. The oldest ones (initiated in 1994) are in the Motupe valley. At the other extreme are the organizations in Olmos, of which three of the five groups have yet to be accredited.

It could be concluded that these organizations are not economically viable even with the technical assistance provided by TNS. The groups organized with the participation of TNS are not currently economic agents within their own areas of operation.

2 TNS Experiences with Cruz de Chalpon Credit

The case of "El Arrozal" is indicative of the situation. This group was the only one of three in Motupe that presented a credit application to the CRCC (in September 1995). The request was rejected, however, because the group was listed as high risk by the FONDEAGRO program which blocked its approval in the financial system, including the CRACs.⁴⁴

Table E 1 in Appendix 6 shows the sequence of each of the applications presented to the CRCC. The following is a summary of this process and the results.

a Virgen de Las Mercedes (Olmos)

An application for lemon production was made on February 15, 1996, and approved on April 25, 1996. In this 70-day process the CRCC examined the risk related to the age of the plantations (15 years), the effects of diseases, and the justification of the credit (to increase production to 15 MT per hectare and improve the quality of the product). The CRCC decided to finance only 21 hectares instead of the requested 33 hectares. The credit was approved for \$47,301, of which the first installment (\$17,496) was disbursed on May 15.

b San Francisco (Olmos)

An application for lemon production was made on February 23, 1996, and denied on June 7, 1996. According to document 417 of the CRCC, the request was rejected because "the necessary requirements to receive credit from the CRCC were not met." While the problems were similar to those in Virgen de Las Mercedes, the fundamental reasons were lack of irrigation water and the weak organization of the group.

c Virgen de La Puerta (Olmos)

An application for lemon production was made on February 23, 1996, and denied on June 7, 1996. Although the case was similar to that of San Francisco, the administrative cost of the small loan requested (\$6,885) was a determining factor in denial.

d Chaman-San Gregorio (Jequetepeque)

An initial application for cowpea production was made on September 9, 1995, and approved on October 24, 1995. The group then declined the credit, since had they planted in November/December when the credit became available, they would have been planting in rainy season, making success questionable. On December 22, 1995, the application was renewed and was approved on February 16, 1996. The amount was increased to \$40,250 for planting of 57.5 hectares of cowpeas, of which only 30.5 hectares had been planted as of June 6.

In the case of the first application, the inappropriate timing of the credit was not due to lack of timely processing on the part of the CRCC, since the time elapsed (34 days) was less than the average for processing (36 days). If TNS had accelerated the process of submitting the application to the CRCC, results might have been different.

In the second application--which is the one currently approved--the processing time of 56 days was due to delays with the CRCC and the group itself. The CRCC is still refining its requirements, and the group needed to rewrite the contract due to the withdrawal of some producers from its association.

e Pacanga (Jequetepeque)

The application for dry bean production was made on February 13, 1996, and denied on February 19, 1996. The denial was based on the large amount of credit being requested (\$87,000) for a small number of growers (seven), without having been provided the necessary guarantees⁴⁵, also, one of the participants was listed in the high-risk category at the FONDEAGRO program.

f San Jose de Moro (Jequetepeque)

The application for dry bean production was made on January 1, 1996, and although no official reply has yet been given, it appears to have no future⁴⁶. It is assumed that the group has abandoned the request since the planting season has already passed.

3 Policies of the CRCC

From the beginning there was conflict between the groups created by TNS and the perceived "insensitivity" of the CRCC. At the moment of inception of the agreement (October 1993), the legal framework that guided the authorization and functioning of the CRACs already existed--Decreto Ley

25612 Guidelines for Cajas Rurales issued on January 8, 1992 Chapter X of these guidelines points out the following

Art 38 - "The principle and interest of the loans that the Cajas Rurales make, whatever their nature and size, should be protected by real and personal guarantees, and in the latter case should be made without exclusive rights in the case of multiple signatures or guarantors (our underlining)

Guarantees that may be accepted are the following (in descending order of importance) mortgage on rural property, mortgage on urban property, letter of guarantee from a bank, warrant or certificate of products in storage, negotiable paper, certificate of deposit or treasury bond, tradable goods, agricultural products, and personal signature "

As can be seen, TNS did not know the conditions of the credit that would be administered by the CRCC since, with the exception of the Motupe groups, its plan was built around small farmers whose common denominator was lack of private property which is the primary form of guarantee as specified in the law

The business of the CRCC is that of financial intermediation, which implies the ability to receive funds and distribute them in the form of loans Therefore, among the criteria stipulated by the SBS are the guidelines for credit provided by the CRCC, in which the policies and procedures for lending and administration of loans are laid out Undoubtedly, TNS did not know these guidelines related to loans, therefore, it would seem that ACDI as promotional body for the CRCC did not communicate this fact to TNS

In summary, at first there was a lack of knowledge of the restrictions of the CRCC, later communications between ACDI/CRCC and TNS failed It is possible that if the legal framework had been considered initially, the agreement reached in 1993 would have included the specific component of titled lands, and TNS would likely have been more demanding in its selection of credit groups

The second point TNS works with groups, however, the CRCC makes loans to individuals This happens because the associations established by TNS do not have sufficient experience nor could they demonstrate a capacity for organization, production and marketing in so far as they were dependent on TNS technical assistance In these cases the CRCC could ignore the need for real group guarantees and use personal assets that guarantee loans up to a maximum of 10 percent of the portfolio (Art 24 of the credit guidelines) It is in this context that the loan to Virgen de Las Mercedes was approved, while also establishing a limit within which to deny other unsecured group loans⁴⁸, since the CRCC could be overexposed and have to incur additional costs to cover potential loan losses

The third point centers on financial costs⁴⁹ and the operation of the CRCC In the first case, to minimize risks the CRCC holds a guarantee fund equivalent to 20 percent of the loan value which is a surcharge to the borrower, since this amount not available until the debt obligation is cancelled

On the other hand, the CRCC manages the same number of accounts as the number of borrowers which make up the group. Thus, in Virgen de Las Mercedes, the number is 17, and in Chaman 15, thereby raising operating costs of administering the portfolio.

As a fourth point we wish to consider the accompanying requirements for credit application. In the case of individual loans, which the group guarantees internally, the one who holds the account assumes the contract obligations. In the event of failure to meet those obligations, the CRCC would exercise the use of the guarantees, affecting the patrimony of the group. For this reason the guarantor must co-sign the credit contract. This procedure, which was not followed in the case of the first credit approval for Chaman, was incorporated into the second approval as a ex-post facto addendum, once the group was notified of this requirement, which TNS and the group understood as "guideline adjustments".⁵⁰ The CRCC is without doubt responsible for the omission, in spite of the fact that the amended procedure is correct and legally necessary.

4 Impact of TNS Technical Assistance

To begin with, we must make two clarifications. Technical assistance is understood as the combination of acquired and tested knowledge and abilities applied to economic processes. This includes a whole range of components: the optimal use of production factors, management of technical resources and organization, financial leveraging, and market participation. We will now consider the impact of these credit resources made available by the Caja Rural Cruz de Chalpon.

a Credit Access

TNS planned to establish six credit groups to be financed by the CRCC in three years. In the above sections we have analyzed the limiting factors that have resulted in only two of the groups being financed. The indicators of the impact are seen in Table E 2.

Financing provided in the Chaman and Virgen de las Mercedes valleys included both perennial and annual intercropped plantings. As a result of the ACDI-TNS project, these two groups have received both credit and technical assistance (by TNS) which permits the correct administration of accounts related to input and labor requirements, thereby facilitating the achievement of the projected production goals: 1,500 kilos of cowpeas and 15 MT of lemons per hectare. A growth of 87 percent and 50 percent, respectively, is projected.

Increases in productivity result in a better quality product which is more competitive in the marketplace. In the case of cowpeas, the export market is accessed, while in the case of lemons, the market is restructured to more effectively meet the demands of the internal market.

In terms of abilities acquired by producers, there is a qualitative aspect which links, for the first time, commercial credit with technical assistance and marketing. This model differs from that of the BAP which had financed these groups in the past.

b Market Participation and Income Increases

(i) Cowpeas

The results of the linking technical and financial assistance can be seen in two ways a product of higher quality recognized by exporters, and subsequently, a better price in the marketplace

With respect to marketing, purchase agreements of local exporting groups take into account product quality The strategy of TNS is that of associated marketing sales in the field with a certified balance and payment upon receipt As a negotiation tool, a register of fair market prices is maintained (e g , the Mochoqueque market in Chiclayo) so that at the moment of contracting a sale, wholesale prices are used as a point of reference Traditionally, the growers functioned independently and negotiated individually with exporters who "swept" the area with lower product quality standards but also with lower prices and often with inaccurate weighing devices This, of course, resulted in lower income for the growers Information found in Table E 2 provides an idea of the market prices of cowpeas

With respect to income, Table E 2 shows the results of the cultivation of one hectare of cowpeas in the Motupe and Jequetepeque valleys We will elaborate on the case of Motupe when we examine the involvement of the Fondo Contravalor Peru Canada

With respect to Jequetepeque, which received financing from the CRCC, we conclude that

- o The producer obtained in one year⁵¹ a net gain of \$236 per hectare
- o The relative gain of marketing with the exporter using the associative model is 17 percent better than individually through the intermediary

(ii) Lemons

The impact of the CRCC financing on marketing is expressed in the modification of the structure of fresh produce sales The relationship changed from a 30/70 ratio in fresh/ factory to a 70/30 ratio Technical assistance in growing and improvements in post-harvest handling by selection of the best lemons is the basis for this improvement

In Olmos, PROFUSA is the principal mechanism for establishing prices in the fresh produce market Over the last two years, the company has exported 85 tons of lemon oil extract and 680 tons of dehydrated peels annually PROFUSA needs 24,000 tons of fresh produce, which represents 32 percent of total lemon production of the Lambayeque valleys, and almost 80 percent in the case of Olmos This dominance in the raw goods market has led to a situation in which many growers, because of a secure market, have not maintained high product quality

With respect to income, information in Table E 3 suggests that

- o The producer with medium technological as a result of financing and the projected

- level of quality improvement would obtain a net gain of \$812 per hectare per year
- o If production would decline by 10 percent for some external reason, the producer would still obtain a net gain of \$419 per hectare

We would expect that when the producer considers the advantages of associated marketing and increase of product quality, better prices and higher gains, he would choose to abandon the more traditional management in favor of the newer business approach

5 Capacity of the CBEs to Use Technical Assistance Effectively

The project fundamentally provides technical assistance to organized growers. The following illustrates the impact on production and management of resources

a Technical Assistance in Production

According to the project design, TNS should provide technical assistance to the grower based on research undertaken by TNS. A proposal for production assistance has been made according to the needs of each valley. This is explained in Tables E 4 to E 6

(i) Cowpeas

This crop has been promoted in the Motupe and Jequetepeque valleys. In Motupe the crop is inter-planted with mangoes, while in Jequetepeque it is to provide an alternative to the large number of bean varieties (up to seven). In both, the effort is to establish an export ethos for the growers

In both valleys the traditional crop is beans, however, one difference may be observed as a result of the Fondo Contravalor Peru Canada project. Jequetepeque has better growing conditions than Motupe. In Motupe there is a lack of water and the lowlands are saline, such that crops with short growing seasons and superficial roots are not tolerant of these conditions. For this reason TNS has decided to incorporate hard yellow corn and pole beans in Motupe. Also, the productivity observed in Motupe has ranged from 600 to 800 kilos per hectare due to the above reasons. It is estimated that as Chaman begins to harvest in mid-June, yields will be over 1,200 kilos per hectare. At any rate, the comparison of the two valleys will give an adequate base to analyze the technology proposed

Table E 4 presents the proposed technique, and details the difference in respect to traditional techniques. The harvest in Chaman is outstanding. In our visit during the first week of June, the producers clearly acknowledged the advantages of improved technology

(ii) Lemons

With respect to lemons, which are widespread in Olmos, the technical proposal applied in Virgen de Las Mercedes contemplates the appropriate management of pruning-fertilization-irrigation-disease control-post harvest

The difference from traditional management is observed in yields and quality improvement of the techniques proposed. In Table E 5, the work is systematized by technological levels. An important point to highlight is the application of new post-harvest techniques. TNS has seen fit to acquire selection tables at a low cost, in order to establish stocks according to quality which would prevent deterioration of the fruit.

(iii) Mangoes

With respect to mangoes, the treatment of mango plantations already in existence--of the Hayden and Kent varieties--gives emphasis to their pruning, fertilization and irrigation (applicable especially in 1994 and part of 1995), as well as installation of new plantations in association with beans which are planned in the Fondo Contravalor Peru Canada project.

The technical proposal suggests the incorporation of new varieties (Kent and Tommy Atkins) that are more resistant to transport in order to market them in Europe and Canada. The combination of mangoes/beans is a long-term plan, as the initial mango harvest would be realized in three years, with 10 percent of the maximum eventual capacity, and the growers have adopted the slogan, "legumes pay for mangoes." In Table E 6 the result of the technical proposal for mangoes is presented.

In the visits to the beneficiary organization, it was observed that in the groups Virgen de Las Mercedes, Chaman, Motupe, El Arrozal and Tongorrape, there is a TNS technician in charge who works directly in extension activities. The methodology is to undertake training of groups of producers in demonstration sites, and to monitor agricultural activities and implement the input supply plan in accordance with the biological cycle of the crop. The Motupe groups are more advanced in the assimilation of techniques. Even among the groups who have received financing from the CRCC, the appreciation is positive. This opinion is shared by the Director of the Caja Rural in reference to the Virgen de Las Mercedes group in respect to their organization for the technical assistance, and in reference to Chaman in the quality of their product.

b Technical Assistance to CBE Organizations

Organization of growers facilitates delivery of technical assistance. However, in order for this to function adequately there must be a system of registration, control and administration of resources that facilitates the production cycle (money, materials, seed) and organizes the results (obligations and product).

In the project area, it has been observed that the five financed groups (two of them from the CRCC) have a minimum management structure, however, there are certain unique features that are important to highlight.

The group with a degree of "self-direction" is that of Virgen de Las Mercedes which, by mutual agreement, has named an administrator for the project. Two-thirds of her salary is paid by the

producers and one-third by TNS. In the Motupe groups there is a centralized administration which is possible due to the close proximity of the three groups. Management is handled by an employee of TNS based in the district capital. In Chaman, as in Motupe, administration is handled by an employee of TNS who is located in the city of Chepen.

In all three cases, the common elements are

- o Through the board or the council of presidents of Motupe, the group participates with the administrator and the TNS technician in the decision-making process. The association participates directly in agreements on purchases and sales.
- o Access to inputs by the producer is approved by the group's extensionist in accordance with the technical plan. Only with his approval can the producer request the necessary resources from the TNS administrator.
- o Delivery of materials or money to the producer is recorded on an individual account. All of the beneficiaries--whether they be of the CRCC or the Fondo Contravalor--have their own account on which their personal debt is calculated.
- o Sales are agreed upon. Once marketing is completed, the producer pays part of the debt.
- o A general assembly of members is periodically convened when the board deems it necessary, or when the circumstances require it.

6 Other Financing Sources Before the CRCC

Before October 1995 TNS was able to obtain funding for two of its activities: FIJESA in cotton production in one sector of the Comunidad Campesina de Chepen in 1994 and the Fondo Contravalor Peru Canada in mango and bean production in Motupe in January 1995. The first experience was described earlier in Section C 2, the second is discussed below.

During the second quarter of 1994, TNS presented to the Fondo Contravalor Peru Canada a proposal entitled "Mangoes and Beans for Export: A Pilot Project for the Development of Rural Motupe." This initiative was directed to the Fondo since the effort to establish a permanent crop such as mangoes in Motupe was not one of the priorities of any local financial institution nor was the CRCC in a position to provide financing since it was in the initial stages of organization. The original proposal was to install 300 hectares of mangoes for export and 300 hectares of beans. The amount of credit requested from the Fondo was \$291,579. The agreement between TNS and the Fondo was signed for \$216,009, of which \$208,009 were to be repaid. The plan included materials, seeds and machinery, but did not include labor costs.

As of the first week of June, TNS had achieved the following (see Table E 7)

- o A total of 159 hectares of cowpeas planted in three plantings, 30 hectares of hard yellow corn and 63 hectares of mangoes
- o Commercial production was 57 tons of cowpeas in the first two harvests and 22 tons of corn in the first harvest
- o Productivity levels were 750 kilos per hectare of cowpeas and 4,400 kilos per hectare of corn

Until the time of the evaluation, the producers of the three associations had used \$76,687, of which \$27,262 had been repaid, which left an outstanding balance of \$51,425, as shown in Table E 8. The average estimated investment per hectare is \$280 for cowpeas, \$346 for corn, and \$377 for mangoes⁵² (see Table E 9)

In carrying out the project, some difficulties encountered have modified the original goals. Cowpeas have had a low level of productivity (750 kg/ha). The principal reason for this low yield was the widely fluctuating temperatures from October to January and an unusual water shortage. Normally the water supply is able to reduce the effects of high temperatures. Upon discovering a high level of salinity in the areas selected for bean planting (the lowlands of Motupe and El Arrozal), TNS was obliged to substitute hard yellow corn in these areas.

In addition, the installation of mangoes has proceeded slowly, of the projected 300 hectares, only 63 have been installed. This is due to the fact that Fundacion Hualtaco in Piura (the provider of root stock) did not make deliveries according to the timeline of the plan, thereby affecting plantings.

The project provided credit to 57 producers who belonged to the three associations. Of these, 33 have installed mango plantings. The feasibility of the installation of one hectare of mangoes has been evaluated in Table E 11. For an investment of \$1,028 in the first year and maintenance through the second year without the benefit of a harvest, and with a crop that reaches its full production potential in the tenth year, the grower will realize a return of 23.4 percent, higher than the rate of interest that he must pay on credit. In this framework mango is a viable crop. In five different scenarios, each with a variety of possible restrictions, the crop maintains its viability with a return higher than the rate of interest on the investment, thereby demonstrating the profitability of the plan.

The inter-cropping of mangoes and beans has been discussed in Section 5 above. The appreciation of the growers--especially in El Arrozal where they are most affected--is good, and there is good support for the project.

The Fondo Contravalor Peru Canada is of a similar mind.⁵³ In spite of the difficulties in the previous season, the Fondo considers that "the proposed technique is good." It shares the idea of "beans pay for mangoes," although the Fondo indicates that beans provide minimum profit while mangoes

provide maximum profit. The Fondo considers the progress of the project to be very adequate. It has proposed that, given the lack of accessible water, the Fondo could advance funding to TNS for the following year with the goal of rehabilitating the water sources.

7 Analysis of Credit Conditions of the CRCC

In the second section of this chapter, the policies of the CRCC and their relationship with the TNS directive were examined. We will now evaluate three conditions: opportunity, cost and marketing.

Of the two approved contracts, that of Virgen de Las Mercedes has not proved fruitful. The 70-day delay in securing the credit meant that the March/April disbursement was not made, resulting in lower production. While factors in both parties contributed to this situation, we feel that the CRCC should evaluate the impact on production and repayment capabilities.

As to the cost of the credit itself, the method of calculation is presented in Table E.4. If we consolidate financial costs I (flat commission plus interest) and II (cost of the guarantee fund) of dollar loans, we can conclude that the financial cost to the producer reached 43 percent annually at the upper extreme, and 23.7 percent at the minimum. However, as of this evaluation there exists neither a partial nor a total cancellation of the credit, and thus the above figures are estimates which need to be validated upon total cancellation. The projected cost is quite high, especially as it relates to the impact on the farmer's cash flow. The greatest contributor to the high cost is the guarantee fund needed to cover the credit risks that are not backed by real guarantees.

Another aspect is the cost that the borrower, whatever his situation, must incur by having to acquire shares equivalent to five percent of the approved loan. From the point of view of the CRCC this approach is justified in that this is a mechanism to facilitate compliance with the underwriting agreement repayments until July 1998. In spite of the rationality of this process, in practice the producer received only 75 percent of the loan at the beginning (20 percent for a guarantee and 5 percent for share purchase are held back), reducing available financing (as in the case of Chaman) to cover costs.

In reference to other sources of financing that the producer can access, the most onerous credit is that which cannot be obtained. In normal financial transactions in the rural environment, there are informal channels that can be accessed for crops such as beans. According to the growers, it is common to access these resources to partially finance a crop, in this case, the labor costs. The interest rate is 12 percent monthly (in national currency), which is equivalent to 289 percent annually, or 1.6 times greater than even the highest extreme of CRCC credit.

8 Final Considerations

There are three specific areas relating to the relationship between TNS (and their CBEs) and the CRCC which need to be noted. The first is in reference to the viability of the project in respect to the competitive access of the producers to the financial market. The analysis carried out suggests that

in credit terms, the farmer has a structural weakness in accessing financial backing in a continuous manner. The lack of real guarantees⁵⁴ is, and will continue to be, a bottleneck for Jequetepeque and Olmos where land is held communally, which complicates the legal processes. Although the land law was published on January 10, 1996, its guidelines have yet to be issued. According to the law, the established procedure can be expedited as long as no conflict arises among the members of the community. Even so, the marking of individual plots and land measurement and registration require expenditures that each grower must undertake.⁵⁵

If within the next 12 months, these communal lands do not become registered as individual properties, whether for lack of guidelines or legal costs, the CRCC policy could require another type of personal guarantee. Herein follows the second point, in reference to the rational disposition of the CRCC to continue to finance this type of loan.

We would like to clearly state that the CRCC is within its rights to set the conditions which it deems necessary to guarantee its financial stability and economic viability. Once the initial contract with TNS is completed, the CRCC will not finance new groups, nor is it certain that it will continue to finance those already borrowing from the CRCC. This is based on the following two reasons:

- o In accordance with criteria established in the credit guidelines and the contingencies that assume "flexible guarantees," the ceiling of 10 percent of the portfolio available for loans without real guarantees will be covered by local urban borrowers. In the month of June, the CRCC has aggressively sought deposits from the market as part of its strategy to gain a position for itself. The middle class population of Chiclayo, which has a savings potential and a need for credit, will see the CRCC as an instrument for financial leverage. This client base offers a lower risk for the CRCC because of its location, culture, and more dependable guarantees that they have to offer. It will be necessary to measure the impact of bringing the Jaen locality into the CRCC, as its rural market would offer the advantage of a more dependable crop (coffee) and, based on the experience of the Caja Rural Selva Central, one that attracts financial backing.
- o Although presently the CRCC is healthy, it is likely that, since during the first nine months delinquency is at 13 percent (corresponding to four borrowers), this rate is likely to increase once the loans given in the previous period mature, which demonstrates the need for the administration to tighten up its loan qualifications and administration. This can be understood as a tightening of the credit policy which could conflict with the expectations of the producers.

A third point consists of the relationship between efforts expended by TNS in the technical production and the results expected and obtained through the credit provision. We are left with the question of the possible outcome in the Motupe association financed by the Fondo Contravalor Peru Canada which will terminate in 1998. As explained earlier, only in the ninth year will mangoes produce a harvest that will have a return higher than the interest rate (opportunity cost). A top priority for TNS will be to enter into projects after 1999 that are not high-risk in terms of capital.

invested. Without some modification in the internal irrigation infrastructure, which implies more capital investment, climatic conditions could lower the profitability of cowpeas which was supposed to pay for the mango plantings. In the meantime, without the possibility of returning to the CRCC, when the growers are on the high-risk list at FONDEAGRO, they are left without the possibility of obtaining loans from the financial system.

If credit lines for production practices are not kept open, the Jequetepeque and Olmos valley projects will collapse, and the possibility of maintaining a high quality product, which is the sustainable future of these groups, is eliminated.

F CONCLUSIONS AND RECOMMENDATIONS

1 Conclusions

The basic premise of this evaluation creates the basis for a number of recommendations which will be found below. This evaluation is supposed to be a mid-term evaluation of a three-year project, yet there are less than four months remaining in the project. This time frame mismatch raises a number of points. First, the project was based on the premise that all approvals necessary for the creation of the CRCC would be granted within 3-6 months following the initiation of the project. When this failed to materialize, the project became bifurcated.

The TechnoServe component of the project took on a life of its own, albeit with little initial success due to the failure of proper management oversight by the TechnoServe project leader. TechnoServe was attempting to work with groups of farmers as detailed by the work plan, yet there was no financial institution to provide the necessary credit. TechnoServe then looked for and was able to find alternative sources of credit for one project, creating the first of many disjunctures with the basic project plan. What is not clear from a **practical conceptual basis** is why the two project components were not both originally assigned to ACDI. TechnoServe was continuing to operate (funding was available), but their actions were doing little to support the basic tasks of the project.

There are obviously problems between ACDI and TechnoServe in the current project. The evaluation team believes that the level and type of assistance currently being provided by TechnoServe is sound. The level of assistance has significantly improved compared to that which was being offered earlier in the project. The assistance being provided to the groups receiving loans is positive. As valuable as these services might be, this project component is not likely to create the business units it deems to be essential for long-term success even if the project were to be extended. In addition, these efforts are not an essential component in making the CRCC a successful institution.

The delays in being able to get the CRCC operational appear to have resulted from (a) misstatements to ACDI by TechnoServe as to the amount of capital which would be forthcoming when it arrived in Chiclayo, and (b) foot dragging by government agencies who were not fully supportive of the various aspects of the project. Thus, what we are faced with is evaluating the Caja Rural component

of the project from the basis of its near "mid-term" position. On that basis, the project is functioning well, and with the exception of certain project components which were programmed too early in the cycle, project objectives have been met. The CRCC is well positioned--with continuing support from ACDI--to move to the next step in project implementation, i.e., further refining the lending function, implementing a savings mobilization program, marketing the capital acquisition program, and, hopefully, implementing a micro-enterprise lending program which will be supported by the CAF.

The design of the TechnoServe component of the project failed to account for basic requirements in the law which call for a strict loan guarantee regimen and the lack of land titling projects coming to fruition. In addition, TechnoServe appears to believe that the CRCC should create a special set of lending policies for the clients they serve. In summary,

- o The TechnoServe component of the project is not essential to the basic need to create a strong community-owned, market-driven financial institution.
- o To the degree that the valuable functions of (a) production assistance, (b) commercialization, and (c) market information need to be provided, the most efficient way for them to be provided if the project is extended would be to have that component transferred to ACDI.
- o That even in the best of circumstances, the TechnoServe component of the project will not be able to create business units in the groups thus far organized within the expanded time constraints. Additionally, the credit needs that are foreseen for the export-based production would require loans of a maturity beyond what would be possible in the current CRAC environment.

The efforts undertaken by ACDI under the Title III program have had a positive impact on the eight participating CRACs. After some degree of politically motivated delay, the program of strategic planning and financial management was undertaken in an efficient manner providing participants with an opportunity to deal with the issues in a hands-on format. The success of this program has been tempered by the fact that there has been a significant turnover of directors and the fact that the pace of development among and between the eight CRACs differs significantly. The material being presented is relatively complex in nature and it should not be expected that a one-time exposure, even with this relatively effective approach, will provide the participants with the background necessary to fully understand the material. This suggests that the program should continue because

- some CRACs need significant review of previous work, and
- project team members need to review basic needs with participating CRACs and develop programs specialized to the needs of each CRAC.

In addition, the data indicate and discussions have suggested that there are one or two CRACs which are facing serious problems. Most individuals we have interviewed suggest that the failure of one CRAC is likely to cause a system-wide failure. While the evaluation team is not so pessimistic, we do believe that the failure of one CRAC will make it more difficult for other CRACs to attract

additional capital or mobilize savings for a significant period of time

It is clear that problems with the current software system is perhaps the most serious operational concern that must be solved. The fact that the basic approach to attempting to solve the problem is politically based makes the evaluation team concerned that, at best, the solution will be less than optimal, and, at worst, it could cause a significant delay in the ability of the system to be able to expand its service offerings. It is difficult to accept the premise that a new system had to be developed in a world where there are several very efficient systems for financial institutions available in the marketplace. To compound the problem, the choice of an institution which has little, if any, experience in developing software for financial institutions to develop the product stretched credulity.

The ACRAC is currently charged with software development and will be able to take the credit (or blame) for the system that is expected to become operational no later than early 1997. The fact that the Association is currently operating without a manager, and the fact that the majority of its budget is supported by sources other than the participating CRACs suggest that the Association, like many other institutions of its type, has a high probability of becoming donor driven in terms of the services that it attempts to provide. Discussions suggest that current ACRAC leadership believes that it "knows" what participating CRACs need, without undertaking the analysis necessary to validate its hypothesis. We have significant concerns that the ACRAC has ideas for programs and projects that are well beyond the ability of participating CRACs to support financially.⁵⁶

2 Recommendations

Based on the information presented in this report and summarized above, we have developed the following recommendations:

- o The Caja Rural Cruz de Chalpon pilot project has shown significant potential, meeting nearly all objectives indicated for the first year of operation of the CRCC and should be extended through December 1997 at current funding levels
- o In the extended project, ACDI should place emphasis on the following aspects of its work with the CRCC

- credit function

- * continued emphasis on loan underwriting skills
- * implementing the new credit function structure recently adopted by the board of directors
- * increase emphasis on collection skills with an eye toward creating a separate collections function
- * further analyze the credit granting function in order to develop a rationale for gradually relaxing the most stringent credit terms, moving more towards projected cash flow and borrower "cultural understanding" as a primary method for approving loans

- * develop funding sources designed to allow the CRCC to offer loans with borrower needs in terms of moving toward non-traditional export-based crops
 - * provide assistance for implementation of the micro-enterprise lending program
 - * consider the impact on the micro-enterprise program of the lending policy which allows only 10 percent of the loan portfolio to be in loans without a real guarantee, and make adjustments as necessary
 - * develop a system for evaluation and classification of loans in the portfolio according to SBS criteria, and develop the necessary allowance for loan losses based upon the analysis
 - * begin efforts to eliminate the requirement that borrowers must purchase shares as a condition for obtaining a loan
- savings mobilization**
- * analyze the true cost of funds, including the impact of reserve requirements
 - * develop a marketing program
 - * implement and monitor the progress of the program
 - * provide appropriate staff training
- capital accumulation**
- * monitor implementation of the marketing effort for new shares
 - * evaluate the feasibility of accepting the second tranche of \$500,000 in underwriting funds from COFIDE⁵⁷
 - * facilitate planning for efforts to ensure that the CRCC has a minimum capital base of \$2,000,000 by the end of the extended project
- software implementation**
- * monitor the implementation process to determine the capabilities of the new software system
 - * prepare a backup strategy in case the new system does not perform up to reasonable standards
- o The TechnoServe portion should not be funded as part of the extended project. However, to the degree that TechnoServe is able to find alternative sources of funding to support intermediate/long-term export-based production, USAID/Peru should consider funding a portion of the costs associated with the on-going technical assistance program, or work with TechnoServe to help develop alternative funding sources
 - o Technical assistance to the Caja Rural Cruz de Chalpon should be gradually reduced throughout the remaining project life to allow the directors and managers to take direct control of the decision-making process. An increased focus should be placed on expanding efforts with the other eight CRACs and on providing support for development of a national system

- o Efforts towards development of a "national system" should be increased, including increased support for creating an independent and viable association. A "grassroots based" strategic planning process for the ACRAC should be developed and implemented.
- o Current Title III efforts should be continued for an additional 12-15 months for
 - providing assistance in implementing and updating current plans
 - providing a second run through for CRACs which have experienced significant board/staff turnover
 - identifying and, hopefully with the support of the SBS, developing a program to intervene in those CRACs experiencing serious problems for the purpose of returning them to viability
- o ACDI should work closely with the SBS to improve the program of supervision and examination of CRACs carried out by the Superintendency.⁵⁸
- o Changes in the law should be made which rationalize geographic limitations on the area served by individual CRACs and increase the individual lending limit from five percent to ten percent of subscribed capital. Also, analysis should be undertaken of the terms and conditions under which the CRACs might be allowed to offer checking accounts to customers.
- o Internal and external funding sources should be identified to allow the CRCC to make loans with intermediate and long-term maturities.
- o Close monitoring of any and all government efforts in creating a rural bank should be made in order to ensure that CRAC interests are well represented in the process.
- o If the Association reaches a position where it is feasible to consider developing a second-tier financial institution, USAID/Peru should provide funds for 3-6 months of short-term technical assistance to support the efforts.

G LESSONS LEARNED

This evaluation provided the team leader with several interesting insights which related information found in this project with earlier experiences. These insights include

- 1 **Serendipity** The best way to frame an understanding is to listen to people who live in the world that is being analyzed. During the trip to Ayacucho, there was an off-chance opportunity to spend approximately one hour with Pepe Arias. We believe that anyone interested in learning a new perspective on the issues facing the agricultural sector in Peru spend some time listening to his ideas.

2. **Need for Hands-On Project** The failure of TechnoServe to provide full-time direction to its portion of the project in early months led to (a) ACDI receiving incorrect information as to the capital base which was available as it began its part of the project, (b) an inefficient use of project resources, and (c) a significant reduction in the probability that TechnoServe could achieve the three stages of group development it believes necessary for project success
- 3 **Design Structure** Close attention must be paid to all components of project design and time line sequencing A closer look at the CRAC law and the probable financial structure and policies of the CRCC should have suggested that it would not have been prudently willing and/or legally able to provide loans that fit the type of loans that the TechnoServe component of the project was likely to require When project assumptions concerning the date of chartering the CRCC were not met, the TechnoServe component of the project was in a position of creating loan demands that could not be funded as expected This created a negative image for the CRCC in the marketplace
- 4 **Too Soon Old, Too Late Smart** After having followed development efforts in Latin America for over 30 years and having seen many "missed opportunities", it is frustrating to see potentially very successful projects where participants are expected to accomplish heroic efforts in exceedingly short time periods in a world of diminished resources

ENDNOTES

1 This concept was not new to Peru During the 1960s and 1970s, it would have been possible for Cajas Rurales to be formed However, given the existence of the BAP and other sources of state-funded lending to agriculture, there was little or no incentive for Cajas Rurales to be formed The concept was reintroduced in 1992 with Decreto Ley 25612

2 The specific amount that will be provided cannot exceed three times the CRCC's net social capital This concept is being expanded to include other CRACs as this report is being written Funds for the expanded efforts will come from a variety of sources derived from the liquidation of the FONDEAGROs This process will be described in more detail later in this report

3 It might be argued that the system would be better served if the funds received were transferred directly to capital (retained earnings) However, it would appear that so many CRACs are having problems with earnings that the government agencies opted for a short-term solution of treating the funds as income

4 To the extent that the funds are to be kept within the government sector, strong consideration should be given to their use as part of a capital infusion program which might be required in work-out plans for institutions experiencing serious financial difficulties This approach should only be considered under extreme circumstances to preclude the moral hazard risk problems which were seen in the S&L bailout in the United States during the 1980s Care must be taken not to damage the

market disciplines the CRACs are attempting to impose on borrowers, thereby avoiding the belief that the state will again "nationalize their debt "

5 It appears that this program has the support of COFIDE who would be willing to make loans with a three-year maturity to CRACs who need help to pay for their share of the costs of the program Capitalizing training efforts in this manner is not reasonable, even if the program were more likely to prove beneficial to participants

6 This is a traditional service However, in our discussions it became apparent that the Association leaders believed that the ACRAC would be doing a significant degree of monitoring of the behavior of the individual CRACs, even to the point of perhaps expecting to intervene in conjunction with the SBS and COFIDE if significant problems were found

7 This factor has been the basis for some of the worst instances of associations becoming donor-driven in Latin America

8 This is not to say that the resulting institution will not deal with external funding and its distribution to participating institutions Existence of a well-managed, market-oriented second-tier institution serves as a good mechanism for dealing with external organizations on behalf of participating institutions, serving as an intermediary (collecting only a small fee to cover basic costs) to pass funds to member institutions

9 According to the Ministry of Agriculture in Lambayeque, one hectare of rice requires 14,000 cubic meters of water, the second highest crop in water usage, exceeded only by sugar, which requires 20,000 cubic meters

10 This committee is comprised of 253 growers with 800 hectares of vegetables (pole beans, castilla, and sarandaja) and 500 hectares of yellow corn

11 The participation of this group is made possible by the Fondo Contravalor Peru-Canada through IPADEN, transferring part of a rotating fund for production as shares in the CRCC

12 This would have the additional advantage of having individuals in place who would be available to work on collection of the FONDEAGRO portfolio While the degree to which loans in that portfolio are collectible may be argued, there is no doubt that there are a reasonable number of loans which can be collected, and the 15 percent commission will provide needed additions to operating revenue in the short run

13 The previous banking law (Decreto Ley 637) of April 1991 recognized the existence of the Cajas Rurales de Credito However, the only two references are to point out that they do not belong to the Deposit Security Funds (Art 239) and that they must abide by the legislation which is applicable to them

14 Decreto Ley 770, Art 422

15 However, according to Emergency Decree 32-94 the existence of the FONDEAGROs is extended to December 31, 1994

16 Maximum possible indebtedness could reach 10 times the net worth which upon initiating operations would be equivalent to the paid-in social capital

17 According to the SBS, \$14 million (48 percent of the allocations of the system) were directed to agriculture for production, investment and marketing

18 In December 1995 there were 23 banks with a net worth of \$1,211 million The smallest bank was the "Banco Del Trabajo" with \$6 364 million of capital, only 12 percent greater than total capital for the 15 CRACs

19 There are 13 Cajas Municipales, besides that of Lima which because of its many years of operation has its own guidelines As of December 1995 the system had a net worth of \$15 340 million The smallest Caja Municipal is Tacna with a capital of \$249,000 which is 43 percent less than the average for the CRACs

20 Upon payment, the investments necessary to start operations are discounted

21 The first factor includes personnel costs, general expenditures and honorariums of administration The second includes income from financial intermediation

22 Between January and May of 1996, the average rate of active shares went from 17 percent to 32.2 percent in national currency, and the rate of passive shares went from 6.22 percent to 10 percent

23 In the period from January to February of 1996, the consumer price index for Metropolitan Lima increased 2.79 percent according to INEI

24 The problem has been created because a few large loans have become delinquent Resolving the problem with the two largest borrowers would cut the delinquency rate nearly in half

26 Through its reserve fund, COFIDE has provided itself protection against loan losses associated with loans made with funds they have provided to the CRACs

26 This analysis indicated that the loan granting process was generally following accepted practices and institutional policies There were a few instances when a signed copy of the loan contract was not in the files, but the original was available in the appropriate place The files contain many duplicate documents, particularly printouts, which make it difficult to follow the process of the loan granting process The process has been streamlined recently by including a checklist to be signed by the appropriate individuals as tasks are completed The process would be further helped if an updated credit history of the borrower were included in the file as well

27 Evidence indicates that one of the primary factors which positively influences an individual's willingness to repay a loan is an assurance that additional credit will be available as needed

28 The financial institution does not want to be in a position where it has to use the guarantee First, it does not wish to be in the business of selling property Second, except in the most extreme circumstances where it needs to "send a message", foreclosure creates a negative image with customers The law indicates that if an individual has a crop guarantee and fails to repay, he can be sent to jail Again, this is an extreme solution that creates its own set of problems if used The key point is to make good loans in the first place and be willing to deal with good customers who experience problems

29 Examples might provide an insight for this question Our visits uncovered a number of borrowers who had, or might have, problems in repaying their loans in a timely manner We did not do an analysis to determine the validity of the issues raised by borrowers, or whether they had alternative means for making payments, however, we do believe that the types of problems presented raise questions which can be discussed as the CRCC considers a gradual evolution of its very strict lending policies The issues were as follows

- (a) a borrower whose bean crop was destroyed by a neighbor's cattle He would be able to overplant with an alternative crop within 3-4 months He also was part of one of the TechnoServe groups and his failure to pay might have a negative impact on the group's ability to borrow in the future
- (b) a borrower who faced a slowdown in business due to the recession in the economy The resulting reduced cash flow made it difficult to make timely payments Sales have since improved and the borrower expects to be able to resume normal payments this month
- (c) a borrower had a loan with a four-month maturity based on the expectation that the cattle he was feeding would be sold by that date The cattle were sold, but conditions in the market delayed his payment beyond the maturity date of the loan There was no serious probability of default
- (d) a number of borrowers (in Ayacucho) were unable to repay their loans because the price of their crop (potatoes) fell dramatically before the crop was harvested How should the institution deal with these borrowers?

31 A commonly used methodology suggests reserving in the following manner

<u>Loan Type</u>	<u>Reserve Level</u>
Regular Loans	0
Problem Loans	0
Substandard	10%
Doubtful	50%
Loss	100%

32 It would be unreasonable and dangerous for the politically-based ACRA to become directly involved in an examination/supervision process

33 Negotiations concerning this contract appear to have been caught up in the desires of the MOA to remain directly involved in the CRAC system. A significant portion of the funds which could have been used for this program were diverted to the MOA, and then to the ACRA for "software development"

34 It has been difficult for ACDI to obtain this information in writing as it appears that the MOA has subtly applied pressure on participating institutions not to provide their support for the efforts received

35 While it is outside the scope of work for this evaluation, we believe that this type of assistance could prove to be very beneficial to certain aspects of the Alternative Development project which is expected to work with several CRACs in the near future

36 Even analyzing the financial statements of the CRACs in a somewhat cursory manner suggests that there is a degree of both interest rate risk and foreign exchange rate risk inherent in their portfolios. The relative stable financial market conditions in the period since the CRACs have begun operations appear to have lulled most participants into a belief that there are no problems. We believe that the potential for problems is of a sufficient magnitude that the CRACs must be provided with a basic understanding of the potential risks associated with their basic operations

37 It is difficult to believe that it is necessary (except perhaps in a political sense) to develop an entirely new software program given that there are several very efficient and proven systems for financial institutions that are available in the marketplace. These efforts may provide something better than the current system, however, even at its best the new system is unlikely to have the flexibility necessary to meet the evolving needs of the system as the institutions expand their service offerings

38 COFIDE has anticipated this problem by requiring the CRAC to create a liquidity reserve for unsold shares after approximately 18 months. This partially protects COFIDE, but simply changes the timing and sequencing of the problems facing the CRAC. In addition, COFIDE has an additional protection in that another component of the FONDEAGRO program calls for using some of the funds to create a loan guarantee program

39 There is an additional premium charged to cover the costs of marketing the shares to third parties. These two premiums provide a "value protection" for original shareholders

40 The entire question of foreign exchange risk seems to have been discounted as the project has proceeded, even though it was discussed in early project documents. Movements in the financial markets during the period when this evaluation is occurring, and forecasts which suggest that the exchange rate could depreciate to S/2.65 per dollar or worse by year-end, point to a need for the CRACs to address the issue

- 41 Given the current reserve requirement, dollar denominated deposits are relatively more "expensive" relative to the margin which can be earned than are borrowed funds at market rates See the material in Appendix 8
- 42 The CRACs were helped in this regard by a section of the law which made it impossible to lend to anyone who had outstanding debts to any state institution
- 43 It must be noted that the financial markets in the country are somewhat inefficient, i e , the level of interest rates charged and paid vary significantly from region to region
- 43 In accordance with III CENAGRO, farms under three hectares are considered "minifundios," while those from 3 to 10 hectares are "small farms "
- 44 Decreto Ley 25612, Art 29 "Credit applications presented by persons or groups that have previous negative credit ratings with delinquent payments will be automatically rejected by the Caja Rural manager, even when the applicant is a shareholder "
- 45 According to Luis Garate, Director of the Caja Rural, the Pacanga producers were indeed capable of offering real guarantees
- 46 Such is the opinion of the Director of the CRCC given on June 7, 1996
- 48 The reason is simple In January 1996 the loan portfolio of the CRCC rose to \$1,097,872, of which 10 percent would be \$109,787 The Chaman credit amounts to \$40,250 and the Virgen de Las Mercedes credit amounts to \$47,301 Together these total \$87,551, representing 8 percent of the loan limit with personal guarantees Another interpretation considers the first installment of Virgen de Las Mercedes (\$17,496) which, added to that of Chaman equals 6 percent as a minimal level In both cases, the CRCC is left with a margin of 2-4 percent with which to work
- 49 A detailed evaluation of the costs to the producer will be addressed at a later point in this analysis
- 50 This delayed the process and necessitated a second contract by the growers
- 51 Only two harvests are considered as a conservative estimate, since in a crop rotation of 90 days (plus 10 days for harvest), up to three harvests per year are possible
- 52 Since this is a permanent crop, the investment costs are distributed according to the technical plan
- 53 These observations are based on an interview with Dr Marco Viteri, Chief of the Proyectos Area Norte, on June 14, 1996
- 54 It is necessary to clarify that land ownership is not the only real guarantee that the producer can provide According to the CRCC guidelines for credit, the urban residence of the owner or their

relatives and/or the members of the group can finance others who do not have sufficient guarantees

55 TNS, in conjunction with regional agricultural authorities, estimates a cost of \$1,200 per parcel

56 It is interesting to note that the ACRAC has proposed a training and technical assistance program for member institutions, and even though not all institutions will participate fully, they propose to divide the costs of the program equally among the 15 CRACs. In addition, there is a suggestion that the CRACs obtain a loan, to be repaid over a three-year period, from COFIDE to cover the expenses for the training and assistance. This approach belies a belief that ACRAC is operating in an independent fashion, and fully in the interests of participating CRACs.

57 To the extent that it is determined that it is not feasible at the current time to accept these funds, ACDI should negotiate with COFIDE in an attempt to have the CRCC's line of credit increased by a like amount.

58 Evidence suggests that there are instances of (a) insider lending to directors, (b) violations of capital subscription limits, and (c) inappropriate lending concentration, all of which could create significant problems if left unchecked.

Appendix 1
Scope of Work

**SCOPE OF WORK
MID-TERM EVALUATION
CAJA RURAL CRUZ DE CHALPON**

I Purpose

The purpose of the services to be provided is to undertake the mid-term evaluation of the " pilot " Caja Rural (Cruz de Chalpon) and the Community-Based Enterprises (CBE) component of the Microenterprise and Small Producers Support Project (MSP)

II Background

In 1990 Peru took steps toward economic liberalization and reinsertion into the world economy. Among the important actions taken in instituting this new economic order was the liquidation of the Banco Agrario (BAP) which had operated for over 20 years under a protected and heavily subsidized economic scheme, accumulating a large operating deficit. Credits were extended by a state bureaucracy on the basis of political consideration more often than on the viability of the investment and the moral solvency of the borrower. With the demise of the BAP in 1992, the GOP introduced the concept of rural banks (Cajas Rurales) as an alternative to finance agriculture production.

This new approach was initiated by the Ministry of Agriculture. Three Cajas Rurales were established with the Ministry's support in 1993, and by late 1994 a total of eight Cajas Rurales were operating and an "Asociacion de Cajas Rurales" was created. To date the Association is comprised of all 15 existing Cajas Rurales and serves as a central lobbying arm and focal point for the purchase of goods and services common to all Cajas Rurales, such as computer software and technical training.

USAID supported this GOP initiative by designing a model to guide the development of this new agricultural credit system. On September 23, 1993, USAID signed a cooperative agreement with ACDI to develop a sustainable community-based "pilot" Caja Rural. Cruz de Chalpon is guided by a markedly different philosophy than that used by the earlier BAP. It is community-based, as contemplated in the Caja Rural law, instead of a centralized, bureaucratic and heavily subsidized rural credit bank. It is capitalized and directed by local groups. Local lenders work with their neighbors to develop viable projects. Since local capital is at risk, the local investor has a vested interest in its successful operation.

Another important GOP contribution towards the consolidation of the Caja Rural system is the participation of COFIDE, a second story financial institution that provides "development" credits to financial intermediaries such as the Cajas Rurales. Its internal operating policies allow it to provide lines of credit up to ten times the amount of subscribed capital of the Caja Rural, but in practice it has only provided 3 to 1 leverage to date.

In the case of Cruz de Chalpon, in 1995 COFIDE provided it with a \$1.5 million line of credit (3 to 1 leverage) using P.L. 480 Title III local currencies. In addition, ACDI developed the concept of "underwriting" as a means of providing credit to the Cajas Rurales to increase their

capitalization COFIDE and the Ministry of Finance agreed in 1995 to use \$1 5 million of P L Title III local currencies to test the underwriting concept in Cruz de Chalpon

III Activity to be Evaluated

The objectives of the Caja Rural and the outreach CBE component of MSP are

- o To develop a sustainable, reliable community-based credit institution that can efficiently finance viable development activities,
- o To generate new sources of rural employment, rational economic development and viable, sustainable sources of income for agricultural producers in the Olmos, Motupe and Jequetepeque valleys, by introducing profitable non-traditional crops with export and/or agro-processing potential and establishing viable systems to get these products to market

The Cruz de Chalpon program is designed to develop a new model of a community-based, locally owned and managed, self-sustaining rural financial institution This market-oriented Caja Rural is providing credit and other services that promote the development of market-responsive agricultural production and agricultural-based business The coastal valley communities of Olmos, Motupe and Jequetepeque produce export crops and have the minimal institutional base required for a pilot effort focusing on the production of export-able products that could be used as a replicable model in other Peruvian communities

ACDI is responsible for the development of the Caja Rural and the overall implementation of the component It provides technical assistance on finance and organizational development to Cruz de Chalpon TechnoServe has a sub-agreement with ACDI, under which it is responsible for implementing actions related to the development and/or strengthening of community-based enterprises (CBEs) which will access credit from Cruz de Chalpon ACDI's Chief of Party is responsible for coordinating the joint efforts of ACDI and Techno-Serve, maintaining a close working relationship with the Board of Directors, general manager and senior staff of the Caja Rural, implementing the Caja Rural institutional strengthening component of the program, and coordinating short-term international technical assistance ACDI has also secured P L 480 Title III funds to support institutional strengthening of eight other Cajas Rurales which involves provision of technical assistance to develop strategic plans, implement new services, and provide training in finance for technical and managerial staff

The status of implementation as of December 31, 1995, can be summarized as follows

- o The Cruz de Chalpon Caja Rural initiated operations in March 1995
- o Assets amount to \$1 32 million
- o 550 loans have been approved for a total of \$1 6 million of which 74% has been disbursed The average loan size is \$2,900 The portfolio has the following composition 42% of loans is for agriculture-related activities, 30% for commerce, 18% for services and 10% for small industry and artisans Past due loans amount to 3 6% of the total loan portfolio

- o Cruz de Chalpon is owned by 944 shareholders with its overall policy guidance emanating from a Board of Directors comprised of nine members representing local growers associations (Junta de Usuarios de Riego Valle Chancay-La Leche), business (Cerveceria del Norte e Invesco), indigenous organizations (Comunidad Campesina de Chepen), cooperatives (Cooperativa Agraria San Martin), and local NGOs (CICAP)
- o TechnoServe is providing technical assistance to eight CBEs in the preparation of agricultural production and investment plans

Headquartered in Chiclayo, Cruz de Chalpon has a field office in Motupe and an outreach office in Chepen which functions as an information center and receives loan applications. Technoserve is implementing its efforts with CBEs in the three valleys of Olmos, Motupe and Jequetepeque and maintains an office in Chiclayo.

IV Statement of Work

An independent assessment is necessary to determine whether, through the current configuration of program activities and management methods, ACDI, Technoserve and USAID/ Peru are producing the expected outputs as projected in the original proposal and the subsequent cooperative agreement signed between USAID and ACDI. Of particular interest are issues relating to the role, efficiency, and potential sustainability of the Caja Rural, the development and strengthening of the CBEs, the focus and effectiveness of program interventions, and the need for mid-term adjustments in program design and implementation.

The following issues will be considered and addressed in the evaluation:

A An analysis of the context in which the Cruz de Chalpon program has been developed

- o the Caja Rural system nationally
- o the role of other financial institutions in the Chiclayo area
- o the role of the Ministry of Agriculture
- o the role of COFIDE
- o the role of the Association of Cajas Rurales

B Program issues common to the Caja Rural and the CBEs

- o Consider whether the original assumptions are still valid. Determine whether the policy context is conducive to effective program implementation. Review the EOPS indicators to assure they continue to be realistic given the actual policy context and economic situation.
- o Consider whether any changes to key indicators are necessary to better measure the achievement of the program's purpose of providing access to credit, technical assistance, and employment for the rural population.
- o Consider whether the relationship between ACDI and TechnoServe ensures effective coordination with central, regional and local government authorities, as well as the private sector, relevant business organizations, and the communities served.

los dos

- o Determine whether all activities are being carried out in an environmentally sound manner
- o Determine the impact disaggregated by gender of the Caja Rural and CBE's activities

C Specific Caja Rural issues

- o Determine if the Caja Rural is adequately staffed, structured and organized to effectively deliver rural financial services
- o Determine the financial soundness and sustainability of the Caja Rural operations
- o Consider the extent to which the Caja Rural meets the financial services required by producers, growers and microentrepreneurs in the region
- o Analyze the Caja Rural's relationships with COFIDE, the Ministry of Agriculture and the Association of Cajas Rurales
- o Determine the impact of technical assistance provided by ACDI to eight selected Cajas Rurales funded under Title III to implement institutional strengthening, planning and training activities
- o Analyze how the "underwriting" concept has functioned in the Caja Rural
- o Consider whether the Caja Rural can be sustainable within three years of initiation of operations as originally projected

los dos

D Specific CBE issues

- o Determine the impact of TechnoServe's technical assistance to the CBEs in increasing small farmers' access to credit, income and markets
- o Consider whether clients/small producers are using the information and technical assistance effectively
- o Until the Caja Rural opened its doors in March 1995, TechnoServe had to secure other sources of funding for its CBEs. Assess the advantages/disadvantages of these other sources
- o Assess the advantages/disadvantages of using the Caja Rural's resources to finance CBE activities

- E Make recommendations concerning necessary adjustments for the program to achieve its objectives as well as a reasonable timeframe within which the Caja Rural should become self-sufficient**

V General Procedures

The evaluation will take place in May and June of 1996. The USAID project coordinator and ACDI's Chief of Party will prepare a preliminary activity and travel schedule to be discussed with the evaluation team. ACDI and the Caja Rural will provide office and meeting space in Chiclayo, as well as logistical support required by the team while in Peru.

The team will use the following data collection and interview methods

- o Review relevant project papers, contracts, and periodic reports
- o Interview the Caja Rural's Board members, staff, field officers and clients, as well as TechnoServe's staff working with the CBEs
- o Perform site visits to Caja Rural's and CBEs' clientele in Chiclayo and the Olmos-Motupe-Jequetepeque valleys
- o Review financial records, management information system, and loan portfolio of the Caja Rural
- o Review information available at the Superintendency of Banks regarding the Caja Rural nationwide system and its performance in relation to Cruz de Chalpon
- o Interview appropriate staff of the Caja Rural Association and the Ministry of Agriculture

VI Evaluation Team

The evaluation will be carried out by a two-person team. The team leader will be a senior economist and rural credit specialist with ample experience in management and/or evaluation of financial institutions similar to the Caja Rural. He/she should have experience in USAID project evaluation, preferably in Latin America, and be fluent in Spanish.

The team leader will be responsible for evaluating the Caja Rural/ACDI activities, for dealing with overall program issues common to both the Caja Rural and the CBEs, and for incorporating the second team member's analysis and observations on the CBEs/Techno-Serve into the final report.

The second team member will be a local professional, with experience in agriculture organizations and/or agribusiness programs, preferably with USAID evaluation experience. This specialist will assess the impact of the CBE/TechnoServe development portion of the program and make appropriate recommendations.

VII Reporting Requirements

- Week 1 Work plan, including the methodology and the outline for final report
- Week 4 Draft final report presentation to USAID/Peru
- Week 6 Final report presentation to USAID/Peru

The Contractor will prepare five copies of the workplan, methodology and final report outline in English and submit them to USAID/Peru for approval at the end of the first week. The Contractor will prepare ten copies of the draft report, including the Project Evaluation Summary in English and submit them to USAID/Peru at the end of the fourth week. All the key findings and recommendations will be presented in a debriefing session on the day that the draft report is submitted. The debriefing sessions will be held at USAID/Peru. The Project Committee will have five working days to review the draft report and provide comments. The Contractor will address the comments in the final report. At the end of the sixth week the Contractor will

present the final report in English and Spanish (10 copies of each) to the Mission. The final report will include an IBM compatible diskette containing the document in its final form, using Word Perfect (WP) and/or Lotus

The Contractor's final report should include the following sections

- 1 Executive Summary
- 2 Table of Contents
- 3 Body of the report
 - Purpose of the evaluation
 - Background
 - Context
 - Findings and Conclusions These should be presented in separate sections design, implementation, effects/impacts, noting any major assumptions that proved invalid, including policy-related factors, and citing progress since the previous evaluation
 - Lessons Learned This section should contain recommendations for the design and implementation of the FY 96 CSD Project. It should also include recommendations for using information gathered, reporting systems and for measuring achievements and failures

The Annexes will include, among other pertinent technical documentation

- 1 The Scope of Work
- 2 The Methodology
- 3 The composition of the team and the qualifications of the team members
- 4 A list of documents reviewed
- 5 A list of the individuals interviewed and contacted
- 6 The Project Evaluation Summary Report - Format AID 1330

VIII Relationships and Responsibilities

The team will work under the general guidance of the USAID/Peru Chief of the Office of Rural Development and the supervision and guidance of the Project's Caja Rural component Coordinator. The team will also perform in close coordination with ACDI, the Caja Rural and Technoserve.

Appendix 2
Evaluation Team Resumes

RESUME

Robert C. Von der Ohe

221 Paris Ave
Rockford, IL 61107
(815) 226-8916

Rockford College
Rockford IL 61108
(815) 226-4092

EDUCATION:

1972 PhD in Economics, University of Tennessee, Knoxville, TN
Dissertation - A Statistical Analysis of Intra-LAFTA Trade, 1961-1968
Major - Economic Development
Minors - International Trade & Economic Theory
Honors - Beta Gamma Sigma, Phi Kappa Phi

1962 BS in Economics, Carroll College, Waukesha, WI

EXPERIENCE:

1985 von Mises Chair and Professor of Economics, Chairman of the Economics, Business and to Accounting Department of Rockford College, Rockford, IL (tenure granted 12/88), present and Director of Strategic Planning, 1992-1993

MAJOR RESPONSIBILITIES

- 1 Supervision and administration of a 12 person department offering undergraduate and MBA programs
- 2 Program development with revision of undergraduate curriculum to enhance the liberal arts component of the program; developed a 5 year MBA option for students majoring in other liberal arts disciplines, developed an international option in conjunction with Regent's College, created and supervised a Small Business Institute
- 3 Teaching undergraduate and graduate courses, Fin Management (UG,G), Intl Finance (G), Prin of Economics (UG), History of Econ Thought (UG), Intermediate Micro Theory (UG), Comp Econ Systems (UG), Business Policies and Strategies (G), Business Ethics (UG)
- 4 Served on committees as elected, Strategic Planning (1988-89), Faculty Concerns (Chm 1991), Curriculum (Chm. 1990), Graduate Studies (1992), Peace Studies (1992 to present), Long Range Academic Planning (1995)

1974-1985 Chief Economist, Credit Union National Assn, and U S Central Credit Union (\$23 billion corporate central credit union (bankers' bank), Vice President, Economics and Research Division of CUNA

MAJOR RESPONSIBILITIES

- 1 Management and Administration through planning, budgeting, and coordinating the work of a 14 person staff
2. Education and Training by serving on the faculty of national and regional schools, conducting educational sessions and workshops for state and national educational efforts Providing consulting services for individual credit unions
- 3 Strategic Planning by serving as team leader of the CUNA environmental scanning process and author of the annual CUNA Environmental Scan, a planning document used throughout the credit union industry

- 4 Market Research by developing a market research function to provide support for product managers of CUNA/CSG/ US Central This department provides member surveys for credit unions and state associations; conducts an annual survey of credit unions to determine current conditions in the industry, and conducts periodic National Member surveys
- 5 Communication and Writing by providing analysis of current economic and financial trends and assess their probable impact on credit union operations Serving as the national economic spokesman for the credit union industry.
- 6 Product Development by working with subsidiaries as a consultant for new product development, including development of US Central, business plan for CUNA Mortgage Corp (mortgage banking), business plan for a credit union trust company, writing first US Central commercial paper presentation
7. Miscellaneous Duties such as member of the Investment Advisory Committee for US Central, Sec/Tres of the Trustees of CUNA Retirement Savings and Pension Plans (elected employee representative of \$80 million plan serving credit union and association employees nationwide), member of the Advisory Board of the Credit Research Center at Purdue University

1969 - 1974 Assistant Professor of Economics, Salisbury State College, Salisbury, MD

1967 - 1969 Assistant Professor of Economics, Knoxville College, Knoxville, TN

INTERNATIONAL EXPERIENCE

- 1994 Consultant of WOCCU as Short-term project manager for development of a liquidity management facility and permanent stabilization program for credit unions in Honduras
- 1994 Consultant for Agricultural Cooperative Development International (Washington DC) to conduct a midterm evaluation for the Financial Resources Component of CORDEP in Cochabamba, Bolivia
- 1992 Consultant for World Council of Credit Unions (WOCCU) to present a seminar on savings mobilization and financial management for credit unions in Honduras
- 1991 Consultant for Chemonics (Washington DC) to design the credit union component of a second stage project for credit unions/agricultural cooperatives in Honduras
- 1991 Consultant for Sparks Commodities (Memphis, TN) to conduct impact analysis for credit union component of a credit union/agricultural cooperative project in Honduras
- 1991 Consultant for WOCCU to develop a program to provide long term stabilization assistance for credit unions in Honduras
- 1990 Participation in a regional conference on financial stabilization for credit unions in Latin America sponsored by COLAC, Panama City, Panama
- 1990 Consultant for Ohio State University Foundation to analyze proposed structural changes for the credit union movement in the Dominican Republic
- 1990 Consultant for WOCCU to manage a project to determine the feasibility of creating a deposit insurance program for credit unions in Costa Rica
- 1989 Consultant for WOCCU to conduct financial management seminars for the Guatemalan Credit Union Federation
- 1989 Consultant for WOCCU to evaluate the macroeconomic impact of a \$35 million credit union/agricultural cooperative project on the Honduran economy
- 1982 Analyze problems faced by Ecuadorian Credit Union Federation and recommend solutions while serving as a volunteer of Volunteer Overseas Cooperative Alliance (VOCA)
- 1979 Consultant for WOCCU to study the reasonability of developing a share (deposit) insurance program for credit unions in Panama
- 1963 Controller and Assistant Manager of the Ecuadorian national Credit Union Federation while serving as a Peace Corps Volunteer in Quito, Ecuador

OTHER PROFESSIONAL ACTIVITIES

- 1 Expert Witness for Peat, Marwick, and Mitchell in the Penn Square Bank Lawsuit**
 - 2 Expert Witness for Coronado Credit Union and the New Mexico Share Insurance Fund vs KOAT-TV**
 - 3 Expert Witness in numerous lawsuits, including business valuation, regulatory impact, TIF districts, and personal injury/wrongful death**
 - 4 Economic Impact Analysis which analyzed the economic impact of the proposed move of the Air Force Reserve Base at O'Hare to Rockford for the Greater Rockford Airport Authority**
 - 5 The development of training modules on accounting, financial management, and marketing for credit unions**
 - 6 A membership survey for EFT Illinois**
 - 7 Educational and training programs for
Western Regional CUNA School (CA)
IBM Costal Employees CU (NC)
League of IBM Credit Unions (NY)**
-

JOSE LAZARTE FARFAN

Parque Yucay 121 Salamanca de Monterrico Lima 03

Telefono-Fax 435-0733 24 442-1523

Economista Registro 3275 del Colegio de Economistas de Lima. Estudios de post-grado en finanzas, comercio exterior y economía del desarrollo con énfasis en el sector agrario y la micro y pequeña empresa

I. EXPERIENCIA PROFESIONAL RELEVANTE

- 1 Instituto Nacional de Planificación (Convenio INP-NCHS de los EE UU) Proyecto de mejoramiento de las estadísticas vitales en el Perú Jefe de Operaciones 1979-1981 Responsable del sistema de registro, procesamiento y diseño del modelo de formulación de estadísticas vitales a partir de los registros civiles en cuatro provincias del país La propuesta sirvió de base, a partir de 1982, para ser ejecutada a nivel nacional
- 2 Asociación de Exportadores (ADEX) Centros Académicos. Director de Estudios 1984-1986 Encargado del planeamiento, ejecución y evaluación de las actividades académicas-administrativas del Programa Anual y de Extensión Integrante del Consejo Directivo
- 3 Autoridad Autónoma del Parque Industrial del Cono Sur de Lima Proyecto de promoción a la pequeña empresa (en convenio con Naciones Unidas para el Desarrollo Industrial -ONUDI-) Gerente de Desarrollo 1988 Las principales funciones se orientaban a la ejecución del programa de habilitación de los módulos industriales, saneamiento de la propiedad, asistencia técnica y planes de concertación en el mercado para la realización de la oferta productiva instalada (confecciones, cueros y calzado, metal-mecánica, artesanía y carpintería)
- 4 Instituto de Comercio Exterior (ICE) Gerente de Desarrollo e Información Comercial 1989-1990 La gerencia asumía la responsabilidad de promover la oferta exportable nacional, para lo cual ejecutaba acciones en la búsqueda de mercados, desarrollo de productos, información comercial y asistencia técnica
- 5 Junta Nacional de Comercialización del Café Presidente del Directorio 1990 La conducción del organismo colegiado -integrado por los estamentos productivos, comerciales, normativos y de financiamiento del sector- comprendía la dirección del sistema de registro, de

representación nacional ante la OIC en Londres y de concertación con el gobierno central para la adopción de medidas necesarias para la viabilidad de la actividad productiva y comercial, asimismo, representar al sector como interlocutor

- 6 Cooperación Técnica del Gobierno Suizo (COTESU) Consultor en el área comercial del proyecto de desarrollo del complejo textil-alpaquero 1990-1991 Las principales responsabilidades se orientaron a diseñar el marco de acción de la cooperación, ejecución del plan de asistencia de gestión a las comunidades campesinas y monitorear las tendencias comerciales del sector
- 7 Programa TTA/FUNDEAGRO-AID Consultor en agró-negocios. 1991-1992 El programa se orientaba a la utilización adecuada de las tierras localizadas en la costa norte para el desarrollo de la agró-exportación, asimismo, identificar el potencial económico de la línea de cultivos alternativos tropicales en zonas de la selva intervenidas por el narcotráfico.
- 8 Universidad Nacional de Ingeniería Facultad de Ingeniería Económica (con la asistencia de la GTZ de Alemania) Expositor de la escuela de post-grado en el área de proyectos 1992 Programa conducente a mejorar la calidad de la gestión de la pequeña y micro empresa

II ACTIVIDAD ACTUAL

- 1 Programa de Naciones Unidas UNDCP¹/UNOPS Área de impacto Ucayalí, Huanuco, San Martín, Ayacucho (Valle Río Apurímac) y Cusco (Quillabamba) Consultor en materia económica, financiera y comercial relacionado con la promoción de los cultivos alternativos y en el desarrollo de iniciativas empresariales sostenibles en las áreas de acción e integrante del equipo ad hoc del programa abocado a la formulación de nuevas iniciativas (Bajo Huallaga, Selva Central y Sandia-San Juan del Oro) actualmente evaluados por la sede central en Viena. Desde 1986 hasta la fecha
- 2 Convenio ADEX-AID/MSP Área de impacto Jaén-San Ignacio-Bagua (Cajamarca y Amazonas) Consultor a cargo del diseño, implementación y monitoreo del sistema de gestión de la actividad cafetalera Desde 1995 hasta la fecha
3. Centros Académicos de la Asociación de Exportadores - ADEX- Profesor asociado, en el área de investigación de

¹ Programa de las Naciones Unidas para el control de drogas

mercados y marketing internacional. Desde 1983 hasta la fecha.

- 4 Caja Rural de Ahorro y Crédito del Valle Rio Apurímac y Ene (Ayacucho) Asesor Económico encargado de dar soporte técnico al directorio en las negociaciones con las entidades financieras acreedoras de la entidad y en el proceso de reestructuración de la cartera de créditos 1996
- 5 Consultor privado con énfasis en
 - Financiamiento agrario Promotor de las Cajas Rurales de Ahorro y Crédito² Quillabamba -Cusco-, en funcionamiento desde el 16-10-94 y El Porvenir -Provincia de Sandia, Puno-, con autorización de organización del 19-05-94 Ambas aprobadas por la Superintendencia de Banca y Seguros
 - Financiamiento para la micro y pequeña empresa. Promotor de la EDPYMES³ Fondos e Inversiones Gamarra S A , impulsada por la Asociación Peruana de Industriales Confeccionistas (APIC), con certificado de organización de la Superintendencia de Banca y Seguros de agosto de 1995, a entrar en operación en segundo trimestre de 1996
- 6 Colaborador de los diarios El Comercio y Expreso y de las revistas AGRONOTICIAS, Avance Económico, Debate Agrario y Agrocafé

III ARTICULOS PUBLICADOS REFERIDOS AL TEMA DE FINANCIAMIENTO AGRARIO (EN ORDEN CRONOLOGICO)

1. Agronoticias 159 (marzo de 1993) Donde son viables las cajas rurales?
2. Agronoticias 164 (agosto de 1993). El reto de las cajas rurales
3. Avance Económico 160 (noviembre de 1993) Una propuesta de financiamiento agrario

² Modalidad de intermediación financiera en favor de las actividades rurales prevista en la ley general de instituciones bancarias, financieras y de seguros DL 770

³ Modalidad de intermediación financiera en favor de los sectores urbanos de la micro y pequeña empresa, prevista en la ley general de instituciones bancarias, financieras y de seguros DL 770

- 4 Avance Económico 162 (enero de 1994) El nuevo rol de COFIDE para con el sector agrario
- 5 Agronoticias 177 (setiembre de 1994). Nuevo sistema financiero agrario -en torno a COFIDE y las cajas rurales-.
- 6 Agronoticias 188 (agosto de 1995) Cajas rurales y financiamiento agrario

Lima, Abril de 1996

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Appendix 3

List of Persons Interviewed

LIST OF PERSONS INTERVIEWED

I ACDI

Jorge Nora Miranda	Representative, ACDI-Peru
Julio Montenegro Serquen	Financial Analyst
Raul Saldarriaga	Consultant/Technician
Rafael Guzman	Consultant/Technician
Oscar Feria	Consultant/ Technician

II TechnoServe

Alberto Perez	Director
Hamilton Eraso	Project Director
	Agricultural Technician
	Agricultural Technician

III Peruvian Government Agencies

Eduardo Casavilca	Manager, COFIDE
Rosana Saavedre Bobbio	Executive, Development Area, COFIDE
Lizardo Cruchaga Sampen	Intendente of Financial Institutions, SBS
Juan Vega	Asesor Cajas Rurales, MOA

IV Caja Rural Cruz de Chalpon

Luis Garate Chavez	General Manager
Oswaldo Tello Mier y Teran	Credit Manager
Juan Machan Purihuaman	Operations Manager

V Other Cajas

Juan M Villacorte Arevalo	Manager, San Martin
Ing Darwin del Aguilla Solano	President, San Martin
Eco Bruno Alberto Salas Meza	Manager, Miguel Grau
Teofilo Vite Garcia	President, Miguel Grau
Roberto Temoche	Director, Miguel Grau
CPC Victor Human	Director, Miguel Grau
Aldo Vignolo	Director, Miguel Grau
Ing Hernan Zamalloa Brave	President, Los Libertadores
	Manager, Los Libertadores

VI Association of Cajas Rurales

Gaston Castillo	Past President
Eduardo Moran	President

VII Clients

Puicon Chafloque Ramon	Engrodo Ganado (\$5,700)
Semillas Ventura S A	Semillos (\$16,000)

Aldea Ramos Migul Angel
 Altamirano Rojas Ramiro
 Santos Faustino Mendoza Burga
 Human Pasache Jose Mercedes
 Vasquez Perez Aurelio
 Julca Inga Ronald
 Cornejo Llontrop Andres
 Castro Diaz Cesar
 Lopez de Casas Dagmar
 Samame Rodriguez Adrian
 Monsalve Llamo Estanisalo
 Carhuajulca Quispe Cecelia
 Ferrenay Fernandez Julio
 Bazan Campos Victor Rogger
 Puican Farronay Leoncio
 Chaponan Vidaurre Gilberto
 Farronan Espinoza Maria Haydee
 21 of 45 members of
 Pepe Arias

Ganado (\$8,400)
 Cana de Azucar (\$7,100)
 Engordo Ganado ((\$8,400)
 Comercio (\$15,000)
 Agroindustria (\$6,900)
 Comercia (\$3,750)
 Confecciones Textiles (\$1,650)
 Comercio de Plasticos (\$5,100)
 Avicultura (S/6,000)
 Comercio (S/8,000)
 Comercio de Azucar (S/13,900)
 Servicio (S/1,150)
 Servico (S/800)
 Industria (S/2,600)
 Artesania (S/5,000)
 Confecciones Textiles ((S/5,000)
 Servico (S/1,180)
 Agropecuria (\$xx,xxx)
 Agropecuaria (\$1,500) - Ayacucho

VIII Banks in Chiclayo

Jorge Seminario Garcis
 Javier Penalillo Pimental
 Perc Lujan L
 Jorge Aguinaga Ortiz
 Juan Manuel Raunelli Sander

General Manager, Bance Weise
 Manager, Banco Continental
 Manager, Banco Credito del Peru
 Manager, Banco Latino
 Credit Manager, Banco Latino

IX USAID/Peru

Harry Wing
 Connie Gutierrez
 Dan Boyd

Appendix 4

List of Documents Reviewed

DOCUMENTS REVIEWED

- 1 Project 527-0349 Peru Caja Rural Cooperative Agreement (ACDI/TechnoServe) 527-0349-A-00-3338-00
- 2 Peru Olmos-Motupe-Jequetepeque Caja Rural and Community Based Enterprise Development Project, June, 1993 [Unsolicited Proposal], Version 3
- 3 Peru Olmos-Motupe-Jequetepeque Caja Rural and Community Based Enterprise Development Project Work Plan, February 13, 1994
- 4 Peru Caja Rural and Community Based Enterprise Development Project, Quarterly Report [12/94, 12/94-2/95, 3/95-5/95, 9/95, 9/95-11/95]
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- 12 ACDI Peru Programa P L 480 Titulo III, Informe Trimestral, Junio-Sept , 10/95
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- 19 Fondo Para el Desarrollo Del Sistema de Credito Rural, Reglamento Operativo, COFIDE, 1/95
- 20 ACDI Propuesta a la Comision la Directive del Fondo en FIDEICOMISO Para el Apoyo Financiero a la Caja Rural Cruz de Chalpon S A
- 21 Convenio de FIDEICOMISOO, 12/95
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- 24 Reglamento Interno de Trabajo, Caja Rural de Ahorro y Credito, "Cruz de Chalpon"

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- 26 Propuesto de Fortalecimiento Patrimonial, Solicitud de Financiamiento y Cooperacion Technica, Caja Rural Cruz de Chalpon, Abril, 1996
- 27 Informacion Financiera de Cajas Municipales y Cajas Rurales, Superintendencia de Bancos y Seguros del Peru, 29/II/96
- 28 Memorial Anual 1995, Anexo II, Caja Rural de Ahorro y Credito "Cruz de Chalpon", S A
- 29 Informe Anual 1995, Proyecto Fortalecimiento del Sistema de Cajas Rurales de Ahorro y Credito, Enero, 1996
- 30 Propuesta al Ministerio de Economia y Finanzas Para el Fortalecimiento del Sistema de Cajas Rurales de Ahorro y Credito, Junio, 1995
- 31 Caja Rural de Ahorro y Credito Cruz de Chalpon S A Reglamento Para la Aplicacion de Asistencia Technica Obligatoria
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- 33 Caja Rural de Ahorro y Credito "Cruz de Chalpon" S A Plan de Captaciones 1996
- 34 Sintesis Economica Dpto, Lambayeque, Febrero 1996, Banco Central de Reserva del Peru Sucursal Piura Seccion Estudios Economicos, Abril 1996
- 35 Convenio de Fideicomiso, Abril, 1995
- 36 Contrato de Underwriting Entre COFIDE y La Caja Rural Cruz de Chalpon
- 37 Contrato de Linea de Credito Entre COFIDE y La Caja Rural Cruz de Chalpon
- 38 Contrato de Mandata Para Colocacion de Acciones
- 39 Estatutos de La Caja Rural "Cruz de Chalpon" S A
- 40 ACDI-Peru, Plan Estrategico Periodo 1996-2000 Caja Rural de Ahorro y Credito "Cruz de Chalpon" S A , Mayo, 1996
- 41 ACDI-Peru, Propuesta al Ministerio de Economia y Finanzas Para El "Fortalecimiento del Sistema de Cajas Rurales de Ahorro y Credito", Noviembre, 1994
- 42 Plan de Accion para el Fortalecimiento del Sistema de Cajas Rurales de Ahorro y Credito, J L Daly, Inc , Octubre, 1995
- 43 Caja Rural de Ahorro y Credito "Cruz de Chalpon" S A , Plan Operativo 1996

Appendix 5

Miscellaneous Tables and Charts Activities and Basic Financial Information

CUADRO C 1 ACTIVIDADES DE TECHNOSERVE PRIMERA FASE EN JEQUETEPEQUE (*)

	INICIO ACCIONE TECHNOSERVE	# PRODUCTORE	CEDULA AGRICOLA (HAS)	ACCIONES DE TECHNOSERVE	RESULTADOS
1 COMITE DE MENESTRAS (1)	FEBRERO 93	253	800 MENESTRAS 500 MAIZ A D	1 CONCERTACION CON EMPRESA TEXTIL FIJESA HABILITACION DE 330 HAS ALGODO CAMPANA 94 POR \$ 331,000	- ABASTECIMIENTO INOPORTUN DE FERTILIZANTES (FIJESA) INCREMENTO DE PRECIO POR ENCIMA DE LO PACTADO DEUD DE PRODUCTORES CON FIJESA (\$ 120,000) ACTUALMENTE EN LITIGIO
				2 FORMULACION DE UN PROYECTO DE MEJORAMIENTO DE RIEGO CANALIZADO A FONCODES	- NO SE APROBO TNS SE RETIRA ABRIL 95
2 ASOCIACION STA CATALIN	MARZO 93	33	70 ARROZ	1 FORMULACION DE UN PROYECTO DE MEJORAMIENTO DE SUELOS CANALIZADO FONCODES	NO SE APROBO TNS SE RETIRA DIC 93
3 COOP TOMAS LA FORA	SETIEMBRE 93	113	1,000 ENTRE ARROZ Y MAIZ	(2)	TNS SE RETIRA MAYO 95
4 COOP LA CALERA	ENERO 94	183	1,400 ENTRE ARROZ Y MAIZ	(2)	TNS SE RETIRA JUNIO 94
5 COMITE HUACA BLANCA	ENERO 95	51	258	(3)	TNS SE RETIRA JUNIO 95

(*) ACCIONES INICIALES ANTES DEL CONVENIO ACIDI-TNS

(1) SURGE AL INTERIOR DE LA COMUNIDAD CAMPESINA DE CHEPEN

(2) AMBOS GRUPOS SE INSCRIBEN EN LA LINEA ORIGINAL DE OBTENER FINANCIAMIENTO DE LA CAJA RURAL

(3) GRUPO CON DEUDA DE FONDO ROTATORIO (\$ 46,000) A ONG IPADEN (PROYECTO FONDO CONTRAVALOR PERU CANADA)

ELABORACION PROPIA

CUADRO C 2 ACTIVIDADES TNS SEGUNDA FASE

ASOCIACION/GRUPO	INICIO ACCIONES TNS	# INTEGRANTES	PP JJ	FECHA SOLICITUD CAJA RURAL	RESPUESTA CAJA RURAL	SITUACION A LA FECHA
MOTUPE (1)						
1 MOTUPE	DICIEMBRE 94	30	SI (MAYO 94)			LAS TRES ASOCIACIONES DEL VALLE MOTUPE SON BENEFICIARIAS FGCP
2 EL ARROZAL	DICIEMBRE 94	40	SI (MAYO 94)	20/09/95	DENEGADO (OCT/95) (2)	
3 TONGORRAPE	DICIEMBRE 94	30	SI (JUNIO 94)			
OLMOS						
4 VIRGEN DE LAS MERCEDES	NOVIEMBRE 95	21	NO	15/02/96	APROBADO (25/04/96)	EFFECTUADA 1° PARTIDA (3)
5 SAN FRANCISCO	NOVIEMBRE 95	22	NO	23/02/96	DENEGADO (07/06/96)	
6 VIRGEN DE LA PUERTA	NOVIEMBRE 95	22	NO	23/02/96	DENEGADO (07/06/96)	
7 SENOR DE LOS MILAGROS	NOVIEMBRE 95	16	NO	NO PRESENTO		
8 VIRGEN DE GUADALUPE	NOVIEMBRE 95	33	NO	NO PRESENTO		
JEQUETEPEQUE						
9 CHAMAN-SAN GREGORIO	OCTUBRE 95	40	SI (SET 95)	20/09/95	APROBADO (24/10/95)	EXTEMPORANEO (4)
				22/12/95	APROBADO (16/02/96)	DESEMBOLSO (23/02/96) (5)
10 PACANGA	OCTUBRE 95	16	SI (FEB 96)	13/02/96	DENEGADO (19/02/96)	
11 SAN JOSE DE MORO	OCTUBRE 95	25	SI (FEB 96)	24/01/96	DENEGADO (6)	

(1) LOS PRIMEROS CONTACTOS DE TNS SE REMONTAN A 1993 (REF INFORME DE AVANCE DE LA ORGANIZACION DE LOS GRUPOS SELECCIONADOS EN LOS VALLES DE JEQUETEPEQUE Y MOTUPE TECHNOSERVE PERU 1993)

(2) GRUPO QUE MANTIENE DEUDA CON FONDEAGRO IMPEDIDO POR LO DISPUESTO EN EL DL 25612 (REGIMEN DE CAJAS RURALES DE AHORRO Y CREDITO) ART 29

(3) CREDITO POR US \$ 47,301 EN TRES PARTIDAS LA PRIMERA ENTREGA US\$ 17,946

(4) EN EL PRIMER MOMENTO FUE EXTEMPORANEO A CRITERIO DE LOS AGRICULTORES

(5) UN SOLO DESEMBOLSO CREDITO APROBADO US \$ 40,250

(6) AUN NO EXISTE RESPUESTA FORMAL EN CONVERSACION CON EL GERENTE DE LA CAJA RURAL (07-06-95) MANIFIESTA QUE SERIA DENEGADA

ELABORACION PROPIA

CUADRO D 1 PERFIL GENERAL DE LAS CAJAS RURALES DE AHORRO Y CREDITO A MAYO DE 1996

	INICIO TRAMITE ANTE LA SBS	CERTIFICADO DE ORGANIZACION	CERTIFICADO DE FUNCIONAMIENTO	INICIO DE OPERACIONES	MESES EMPLEADOS PARA OBTENER			TOTAL MESES
					(1)	(2)	(3)	
I CON AUTORIZACION DE FUNCIONAMIENTO								
1 DEL SUR	AGOSTO 92	ABRIL 93	NOVIEMBRE 93	06 12 93	8	7	1	16
2 TUMBAY	FEBRERO 93	SETIEMBRE 93	FEBRERO 94	01 03 94	7	5	1	13
3 SAN MARTIN	FEBRERO 93	JUNIO 93	MARZO 94	20-03 94	4	9		13
4. LOS LIBERTADORES	SETIEMBRE 92	ABRIL 93	ABRIL 94	04-05 94	5	12	1	18
5 VALLE RIO APURIMAC Y ENE	DICIEMBRE 92	NOVIEMBRE 93	ABRIL 94	02 05 94	11	5	1	17
6 SENOR DE LUREN	DICIEMBRE 92	DICIEMBRE 93	MAYO 94	23 05 94	12	5		17
7 QUILLABAMBA	DICIEMBRE 92	OCTUBRE 93	OCTUBRE 94	02 11 94	10	12	1	23
8 SELVA CENTRAL	MARZO 93	DICIEMBRE 93	OCTUBRE 94	02-11 94	9	10	1	20
9 CHAVIN	ABRIL 93	ABRIL 94	DICIEMBRE 94	12 12 94	12	8		20
10 LA LIBERTAD	MARZO 94	AGOSTO 94	FEBRERO 95	06-03 95	5	6	1	12
11 CANETE	SETIEMBRE 92	JUNIO 93	MARZO 95	22 03-95	9	9		18
12 CRUZ DE CHALPON	JUNIO 93	MAYO 94	MARZO 95	27 03-95	11	10		21
13 CAJAMARCA	SETIEMBRE 92	FEBRERO 94	MARZO 95	03-04 95	5	13	1	19
14 MIGUEL GRAU	MAYO 93	OCTUBRE 93	ABRIL 95	10-04-95	5	18		23
15 MANTARO	DICIEMBRE 92	ENERO 94	JULIO 95	02 08 95	13	18	1	32
II CON AUTORIZACION DE ORGANIZACION								
1 LOS CHANKAS	AGOSTO 92	JUNIO 93			10			
2 EL PORVENIR	MAYO 93	MAYO 94			12			
3 IRRIGACION MAJES	DICIEMBRE 92	MAYO 94			17			
4 MARANON	MARZO 93	JUNIO 94			15			
5 LOS AYMARAS	OCTUBRE 92	NOVIEMBRE 94			25			
6 ANDRES AVELINO CACERES	JUNIO 93	DICIEMBRE 94			18			
7 LOS INCAS	JUNIO 94	MARZO 95			9			
8 UCAYALI	MARZO 93	ABRIL 95			25			
9 SELVA PERUANA	JULIO 93	ABRIL 95			21			
10 HUARAL	MARZO 94	JULIO 95			16			
III SOLICITANDO AUTORIZACION DE ORGANIZACION								
1 TUMBES	JUNIO 93							
2 UTCUBAMBA	MARZO 94							
3 CHICLAYO	ABRIL 94							

(1) CERTIFICADO DE ORGANIZACION A PARTIR DE HABER ENTREGADO EL EXPEDIENTE A LA SBS

(2) CERTIFICADO DE FUNCIONAMIENTO A PARTIR DE (1)

(3) INICIO DE OPERACIONES A PARTIR DE (2)

FUENTE SUPERINTENDENCIA DE BANCA Y SEGUROS 1996

ELABORACION PROPIA

CUADRO D 2 FINANCIAMIENTO AGRARIO POSIBLE EN EL AREA DE INFLUENCIA DE LAS CAJAS RURALES (MILES US \$)

CAJAS RURALES	CAPITAL SOCIAL (1)	MAXIMO ENDEUDAMIENTO (2)	AREA AGRICOLA (HAS) (3)	FINANCIAMIENTO POSIBLE (HAS) (4)	PARTICIPACION (4)/(3)
1 DEL SUR	320	3,198	14,088	10,661	75 67%
2 SELVA CENTRAL	341	3,406	30,000	11,355	37 85%
3 TUMBAY	519	5,189	5,813	17,296	297 55%
4 QUILLABAMBA	385	3,854	60,381	12,846	21 28%
5 SAN MARTIN	424	4,240	48,071	14,132	29 40%
6 LOS LIBERTADORES DE AYACUCHO	355	3,548	4,826	11,826	245 06%
7 SEÑOR DE LUREN	461	4,612	83,903	15,373	18 32%
8 VALLE DEL RIO APURIMAC Y ENE	276	2,758	43,375	9,193	21 19%
9 CHAVIN	301	3,009	95,000	10,031	10 56%
10 LA LIBERTAD	699	6,991	25,000	23,304	93 21%
11 CRUZ DE CHALPON	337	3,373	21,000	11,244	53 54%
12 CAÑETE	253	2,533	22,222	8,444	38 00%
13 MIGUEL GRAU	364	3,642	43,750	12,139	27 75%
14 CAJAMARCA	299	2,991	72,000	9,971	13 85%
15 MANTARO	290	2,902	18,000	9,673	53 74%
TOTAL	5,625	56,246	587,429	187,488	31 92%

(1) CAPITAL INICIAL AL MOMENTO DE ENTRAR EN OPERACION SE APLICA EL TIPO DE CAMBIO DE LA FECHA

(2) HASTA 10 VECES EL PATRIMONIO EFECTIVO (CAPITAL SOCIAL AL INICIO DE OPERACIONES) DL 25612, ART 33

(3) CORRESPONDIENTE AL AMBITO DE OPERACIONES DE CADA CAJA RURAL

(4) SE ESTIMA UN AVIO DE 300 US \$ POR HECTAREA

FUENTE EXPEDIENTES PRESENTADOS A LA SBS 1994

MINISTERIO DE AGRICULTURA 1995

ELABORACION PROPIA

CUADRO D 3 INDICADORES DE EVALUACION

CAJAS RURALES	INTERMEDIACION (1)		CALIDAD DE CARTERA (2)		RENTABILIDAD (3)		GESTION (4)	
	DIC 95	FEB 96	DIC 95	FEB 96	DIC 95	FEB 96	DIC 95	FEB 96
DEL SUR	106 59%	108 71%	5 99%	4 80%	29 00%	26 49%	53 79%	31 25%
SELVA CENTRAL	92 83%	95 09%	2 99%	3 39%	14 09%	3 57%	49 34%	51 60%
TUMBAY	106 78%	107 05%	55 61%	54 31%	-8 81%	-1 39%	73 01%	60 69%
QUILLABAMBA	97 50%	133 87%	2 20%	1 02%	1 25%	2 78%	67 17%	35 16%
SAN MARTIN	86 48%	87 53%	11 11%	8 55%	4 82%	3 39%	54 08%	48 63%
LOS LIBERTADORES	92 53%	90 57%	24 44%	29 70%	16 16%	3 55%	43 71%	54 38%
SEÑOR DE LUREN	84 71%	81 94%	14 99%	14 43%	2 98%	0 62%	38 33%	32 03%
VALLE RIO APURIMAC	99 68%	98 07%	51 68%	44 99%	14 72%	-2 67%	80 64%	97 14%
CHAVIN	87 36%	84 30%	12 59%	15 19%	58 88%	-1 99%	61 46%	169 52%
LA LIBERTAD	53 55%	100 51%	9 23%	11 86%	16 97%	6 42%	31 66%	13 70%
CAJAMARCA	110 69%	100 49%	0 42%	1 16%	3 79%	4 18%	59 63%	40 15%
CANETE	93 70%	84 71%	0 00%	0 00%	-12 84%	0 52%	97 12%	57 76%
MIGUEL GRAU	81 33%	96 59%	5 25%	22 80%	-24 79%	-14 53%	152 13%	163 04%
CRUZ DE CHALPON	236 90%	178 18%	3 99%	6 33%	0 39%	0 83%	62 42%	47 92%
MANTARO	104 12%	92 37%	0 00%	0 00%	5 73%	13 77%	59 39%	26 09%
SISTEMA CAJAS RURALES	84 79%	96 47%	12 78%	13 15%	7 27%	3 72%	53 37%	39 06%
BANCA COMERCIAL	68 84%	67 25%	4 82%	5 53%	23 16%	3 12%	46 03%	43 46%
SISTEMA CAJAS MUNICIPALES	87 23%	88 54%	10 08%	10 96%	45 52%	5 56%	62 14%	56 39%

(1) COLOCACIONES/(DEPOSITOS+ADEUDOS)

(2) CARTERA ATRASADA/(CARTERA ATRASADA+CARTERA VIGENTE)

(3) UTILIDAD NETA DEL EJERCICIO/(PATRIMONIO EFECTIVO NETO-UTILIDAD NETA DEL EJERCICIO)

(4) OTROS GASTOS/TOTAL INGRESOS FINANCIEROS

FUENTE SUPERINTENDENCIA DE BANCA Y SEGUROS 1996

ELABORACION PROPIA

CUADRO D 4 EVOLUCION DE LOS DEPOSITOS DE CAJAS RURALES RESPECTO A LA BANCA COMERCIAL (MILES DE SOLES) (*)

CAJAS RURALES	CAJAS RURALES			BANCA COMERCIAL			% CAJA EN LA PLAZA	
	DICIEMBRE	FEBRERO	VARIACION	DICIEMBRE	FEBRERO	VARIACION	DIC 95	FEB 96
	1995	1996		1995	1996			
1 DEL SUR (1)	991	565	-42 99%	11,565	13,190	14 05%	8 57%	4 28%
2 SELVA CENTRAL	2,109	1,139	-45 99%	13,375	11,933	-10 78%	15 77%	9 54%
3 TUMBAY	372	428	15 05%	35,930	37,327	3 89%	1 04%	1 15%
4 QUILLABAMBA	689	636	-7 69%	14,199	13,695	3 55%	4 85%	4 64%
5 SAN MARTIN (2)	1,552	1,847	19 01%	28,168	29,192	3 64%	5 51%	6 33%
6 LOS LIBERTADORES DE AYACUCHO	942	900	-4 46%	27,032	28,646	5 97%	3 48%	3 14%
7 SENOR DE LUREN (3)	3,405	3,511	3 11%	84,690	93,692	10 63%	4 02%	3 75%
8 VALLE DEL RIO APURIMAC Y ENE (4)	796	825	3 64%					
9 CHAVIN	1,249	1,385	10 89%	21,639	21,570	0 32%	5 77%	6 42%
10 LA LIBERTAD	1,886	1,991	5 57%	374,295	394,379	5 37%	0 50%	0 50%
11 CAJAMARCA	569	599	5 27%	47,914	52,304	9 16%	1 19%	1 15%
12 CANETE	362	445	22 93%	15,192	16,642	9 54%	2 38%	2 67%
13 MIGUEL GRAU	1,014	657	-35 21%	201,144	232,315	15 50%	0 50%	0 28%
14 CRUZ DE CHALPON (5)	138	171	23 91%	232,041	239,218	3 09%	0 06%	0 07%
15 MANTARO	378	303	-19 84%	109,565	131,669	20 17%	0 35%	0 23%
TOTAL	16,452	15,402	-6 38%	1,216,749	1,315,772	8 14%	1 35%	1 17%

(1) NO SE CONSIDERA AREQUIPA EN LA QUE EXISTE AGENCIA DE LA CRAC SE ASUME CAMANA

(2) UNICAMENTE TARAPOTO (OFICINA PRINCIPAL)

(3) SEDE PRINCIPAL ICA NO INCLUYE CHINCHA

(4) CON AGENCIA EN HUANTA PLAZA EN DONDE NO EXISTE BANCA COMERCIAL SE CONSIDERA SOLO AYACUCHO

(5) CHICLAYO

(*) NO SE CONSIDERA DEPOSITOS A LA VISTA DE LA BANCA COMERCIAL

FUENTE SUPERINTENDENCIA DE BANCA Y SEGUROS
ELABORACION PROPIA

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CUADRO E 1 CARTERA DE TNS CANALIZADA A LA CAJA RURAL CRUZ DE CHALPON

	MONTO	AREA Y	NO FUE	SI FUE	COBERTURA DEL
	SOLICITADO (US \$)	CULTIVO	APROBADO	APROBADO (US \$)	CREDITO APROBADO
OLMOS					
1 VIRGEN DE LAS MERCEDES	64 950	33 HAS DE LIMON/MANTENIMIENTO		47,301	21 HAS A US \$ 18 5/PLANTA (1)
		EQUIVALE A 4,100 PLANTAS US \$ 15			
		CADA UNA			
2 SAN FRANCISCO	22 770	15 HAS DE LIMON/MANTENIMIENTO	EN EFECTO (2)		
		EQUIVALE A 1 518 PLANTAS			
3 VIRGEN DE LA PUERTA	6,885	3 7 HAS DE LIMON/MANTENIMIENTO	EN EFECTO (3)		
JEQUETEPEQUE					
4 CHAMAN SAN GREGORIO	35,700 (4)	51 HAS DE CAUPI/INSTALACION		INOPORTUNO PARA EL	
	46,550 (5)	66 5 HAS DE CAUPI/INSTALACION		40 250	57 5 HAS EL SECTORISTA TNS
					DE CHEPEN INFORMA DE 29 HAS (6)
5 PACANGA	87,000	INSTALACION DE 21 HAS DE SANDIA	EN EFECTO (7)		
		Y 15 5 HAS DE AJI PANCA			
6 SAN JOSE DE MORO	31,500	45 HAS DE CAUPI/INSTALACION	EN EFECTO (8)		

(1) LA DIFERENCIA DE 3 5 US \$ POR PLANTA A FAVOR DEL AGRICULTOR SE DEBERIA A QUE LA CAJA BUSCA EL MARGEN CON EL FONDO DE SEGURO ESTO OCURRE TOMANDO COMO EXPERIENCIA EL CASO DE CHAMAN

(2) NO EXISTE NADA ESCRITO POR PARTE DE LA CAJA LOS PRODUCTORES ENTIENDEN QUE SE DENIEGA POR FALTA DE AGUA Y ORGANIZACION DEFICIENTE

(3) IDEM ANTERIOR SE ASUME QUE POR EL NULO IMPACTO DE AREA DEVIENE EN ALTO COSTO LA ADMINISTRACION CREDITICIA

(4) APROBADO EN OCT 95

(5) SEGUNDA SOLICITUD DEL 22/12/95

(6) LA DIFERENCIA DE AREA PROGRAMADA Y EJECUTADA SE DEBERIA AL RETIRO DE ALGUNOS PRODUCTORES Y/O A MENOR COBERTURA EN OTROS QUE SON PRESTATARIOS

(7) CREDITO PARA 07 PRODUCTORES SUSTENTACION DEFICIENTE (02 PAGINAS VS MONTO) UNA VEZ DENEGADO EL PRESTAMO, EL GRUPO SOLICITA EL MISMO MES OTRO CREDITO POR US \$ 15,000

(8) EL GRUPO DESISTE AUNQUE SIN CONOCIMIENTO FORMAL DE LA CAJA ESTIMAN QUE EL CREDITO SERIA INOPORTUNO POR EL INICIO DE LAS SIEMBRAS

FUENTE CUADRO C 2
ELABORACION PROPIA

CUADRO E 2 RESULTADOS DE EXPLOTACION ECONOMICA DE UNA HECTAREA DE FRIJOL CAUPI (US \$)

	VARIABLES	MOTUPE	JEQUETEPEQUE
1 COSTO DE PRODUCCION		560	560
2 TASA INTERES ANUAL		12 68%	23 60%
3 EQUIVALENTE CAMPANA		4 06%	7 31%
4 INTERES CAMPANA		23	41
5 GASTOS DE CULTIVO		583	601
6 PRODUCCION (KG/HA)		1,500	1,500
7 PRECIOS DE MERCADO (US \$/KG)			
- COMERCIALIZACION ASOCIATIVA		0 48	0 48
COMERCIALIZACION INDIVIDUAL		0 43	0 43
8 TIPO DE CAMBIO	2 40		
9 PRECIO (SOLES/KILO) (*)			
- INTERMEDIARIOS	1 04		
- EXPORTADORES	1 15		
10 GANANCIA POR CANAL COMERCIAL (**)	5 80%		
11 INGRESOS POR CAMPANA (6) x (7) (***)		719	719
12 MARGEN AL PRODUCTOR (11) - (5)		136	118
13 MARGEN ANUAL AL PRODUCTOR (****)		272	236

ANALISIS DE CANALES DE COMERCIALIZACION (US \$)

	INTERMEDIARIO (A)	EXPORTADOR (B)
1 VENTA PRODUCTO	650	719
2 PERDIDA POR CANAL COMERCIAL (**)	38	
3 INGRESO NETO AL PRODUCTOR (1) - (2)	612	719
4 GANANCIA REAL POR COMERCIALIZACION ASOCIATIVA (3 B) - (3 A)		106
5 % GANANCIA RELATIVA		17 39%

*) PRECIOS DE JUNIO 96 EN MERCADO

**) EL INTERMEDIARIO -POR PESO- GANA 29 KILOS POR 500 KILOS DE COMPRA

***) UNA CAMPANA DE 04 MESES

****) 02 CAMPANAS AL AÑO

FUENTE TECHNOSERVE (COSTOS) PROCESADORA S A , MACHELO, JESUS DELGADO
Y MERCADO MOCHOQUEQUE (PRECIOS)

ELABORACION PROPIA

CUADRO E 3 RESULTADOS DE EXPLOTACION ECONOMICA DE UNA HECTAREA DE LIMON EN OLMOS (US \$)

	VARIABLES	TECNOLOGIA	
		BAJA	MEDIA
1 COSTO DE PRODUCCION		1,493	2,581
2 NUMERO DE PLANTAS POR HECTAREA	125		
3 FINANCIAMIENTO CAJA RURAL/HECTAREA (*)			2,306
4 TASA DE INTERES ANUAL	23 60%		
5 COSTO FINANCIERO			544
6 GASTO DE MANTENIMIENTO (1) + (5)		1,493	3,125
7 PRODUCCION (KG/HA) (**)			
a) ALTERNATIVA 1 (MEDIA)	15,000		
b) ALTERNATIVA 2 (BAJA)	10,000		
8 INGRESOS		1,292	3,938
9 TIPO DE CAMBIO	2 40		
10 RESULTADOS (8) - (6)		(201)	812

CALIDADES	FABRICA	EXTRA	PRIMERA	SEGUNDA
ALTERNATIVA 1 (MEDIA)	30 00%	30 00%	30 00%	10 00%
ALTERNATIVA 2 (BAJA)	70 00%	10 00%	10 00%	10 00%
PRECIOS				
- SOLES/KILO	0 100	1 000	0 800	0 600
- DOLAR/KILO	0 042	0 417	0 333	0 250

SIMULACION POR RENDIMIENTO

ALTERNATIVAS	RESULTADO (US \$)	PRODUCCION KG/HA
SI AUMENTA EN 10% PRODUCCION (ALTERNATIVA 1)	1,206	16,500
SI DISMINUYE EN 10% PRODUCCION (ALTERNATIVA 1)	419	13,500

(*) CREDITO POR 47,301 DOLARES PARA 20 5 HECTAREAS

(**) EL EFECTO DEL CREDITO ES PASAR DE LA ALTERNATIVA 2 A LA 1

FUENTE TECHNOSERVE PROFUSA (OLMOS) Y ACOPIADORES-TRANSPORTISTAS
ELABORACION PROPIA

CUADRO E 4 PROPUESTA TECNICA FRIJOL CAUPI (*)

	PROPUESTA TNS (1)	TECNOLOGIA TRADICIONAL
1 SEMILLA	CERTIFICADA VARIEDAD CB88 VAINA BLANCA (PARA JEQUETEPEQUE) Y COMBINADO CON LA MOLINA PARA MOTUPE	UTILIZAN GRANO" NO SEMILLA SE TRATA DE GRANOS DE BAJA DENSIDAD (30 % < DE POBLACION DE PLANTAS) EN CONSECUENCIA MENOR PRODUCCION
2 LABORES CULTURALES	ABONAMIENTO AGUA MINIMO 2 RIEGOS Y EN LOS MOMENTOS CRITICOS FLORACION Y LLENADO DE GRANO CONTROL DE PLAGAS APLICABLE DE ACUERDO A NECESIDADES EVALUACION DE PLAGAS	EL AGRICULTOR NO TIENE CULTURA DE ABONAMIENTO AGUA 1 RIEGO LA PLANTA SE ENVICIA CONTROL DE PLAGAS CADA 15 DIAS APLICA FITOSANITARIOS
3 COSECHA	POLITICA NI TARDE NI TEMPRANO (2) SEGADO (CON HOZ)	COSECHA INDISCRIMINADA LAS VAINAS NO MADURAS AL JUNTARSE CON LAS QUE SI ESTAN LAS MANCHAN DESMEJORAN LA CALIDAD FINAL ARRANQUE DE LA VAINA
4 RESULTADO	PRODUCTO DE PRIMERA MAYOR PRECIO PRODUCTIVIDAD 1 500/1800 KILOS/HECTAREA	MENOR PRECIO 800 KILOS/HECTAREA

(*) TAMBIEN LLAMADO BOCA NEGRA O CASTILLA

(1) EN MOTUPE HAY LIMITADA DISPONIBILIDAD DE AGUA ALTERNATIVA MEJORAR LA TEXTURA DE LOS SUELOS (ABONO) REFORZAR LA ESTRUCTURA
DE RIEGO ADELANTAR LA EPOCA DE SIEMBRA (LOS PRIMEROS MESES) PARA APROVECHAR LLUVIAS

(2) LAS DIFERENCIAS SE MUESTRAN A CONTINUACION

QUE PASA SI SE COSECHA TEMPRANO	QUE PASA SI SE COSECHA "TARDE"
VAINA VERDE LAS HOJAS MANCHAN EL GRANO	EL GRANO SE QUIEBRA AL "TIRARLO MENOR CALIDAD PERDIDA DE PRODUCTO
GRANO CON EXCESO DE HUMEDAD	CONTAMINACION DE GRANOS POR EFECTO DE INSUMOS USADOS
GRANO ARRUGADO	PERDIDA POR DIFICULTAD DEL GRANO APERTURA DE VAINA
LOS RESULTADOS DE AMBAS OPCIONES ES MENOR CALIDAD	

FUENTE TECHNOSERVE 1996

ELABORACION PROPIA

CUADRO E 5 PROPUESTA TECNICA LIMON (*)

	PROPUESTA TNS	TECNOLOGIA TRADICIONAL
1 PODA Y LIMPIEZA	EPOCA DE INVIERNO/PRIMAVERA	NO SE HACE EFECTO PLANTA DEFORMADA
2 FERTILIZACION	ELEMENTOS MAYORES (N, P, K, CA, S) A LA RAIZ ELEMENTOS MENORES (FE, B, MO, ZN) FOLIAR	N AL PUNTO EJE DE LA PLANTACION INADECUADO
3 RIEGO	OPTIMIZAR AGUA DE LOS POZOS LIMPIEZA DE LOS CANALES DOSIFICACION INDIVIDUAL POR PLANTA	POR INUNDACION
4 CONTROL FITO SANITARIO	LO OPTIMO ES DE ACUERDO A LA EVALUACION (1) SE APLICA BIOLOGICO Y CULTURAL	NO SE HACE
5 POST COSECHA	MESA SELECCIONADORA (CRIBAS) POR CALIDADES TECNOLOGIA SUGERIDA POR TNS DE BAJO COSTO (2)	MANUAL DEMANDA MAYOR MANO DE OBRA REDUCE LA CALIDAD POR EL DETERIORO
6 MIX DE COMERCIALIZACION	30% FABRICA/70% MERCADO NACIONAL	70% FABRICA/30% MERCADO NACIONAL

(*) APLICABLE A LA ASOCIACION PRODUCTIVA "OLMOS"

(1) DE ALTO COSTO LOS NATURALES SON NATIVOS PARASITOS (LARVAS) Y PREDADORES

(2) COSTO DE US \$ 100 CADA UNA

FUENTE TECHNOSERVE 1996

ELABORACION PROPIA

CUADRO E 6 PROPUESTA TECNICA MANGO (*)

	PROPUESTA TNS (1)	TECNOLOGIA TRADICIONAL
1 NUEVAS INSTALACIONES	VARIEDADES 'KENT' (82%) Y TOMMY ATKING (18%) CULTIVARES RESISTENTES AL TRANSPORTE MERCADO DE EXPORTACION CANADA Y EUROPA MODALIDAD DE DISTRIBUCION FISICA CONTENEDORES CON ATSMOSFERA CONTROLADA	
2 PLANTACIONES EXISTENTES (2)		
- PODAS	SI CUMPLE UNA FUNCION DE LIMPIEZA Y FORMACION	NO
- FERTILIZACION	SI	NO
- RIEGO	IMPLEMENTACION DE RIEGO "POR ANILLO/PLANTA" PARA EVITAR LA PROPAGACION DE ENFERMEDADES (3)	NO EXISTE UNA PROPUESTA AL RESPECTO
- DISTRIBUCION MERCADO (3)	30% MERCADO NACIONAL 70% MERCADO EXTERNO	70% MERCADO NACIONAL Y 30% DE EXPORTACION

(*) APLICABLE A LA ASOCIACION AGRICOLA "MOTUPE"

(1) COMPRENDE LA INSTALACION DE NUEVAS PLANTACIONES Y LA ASISTENCIA TECNICA EN LABORES CULTURALES A LAS EXISTENTES

(2) VARIEDADES CRIOLLO, HADEN Y KENT

(3) PARA LAS NUEVAS INSTALACIONES

FUENTE TECHNOSERVE 1996

ELABORACION PROPIA

CUADRO E 7 PROYECTO AG-372/FONDO CONTRAVALOR PERU CANADA RESULTADOS

1 HECTAREAS INSTALADAS										
	PRIMERA CAMPANA (1)		SEGUNDA CAMPANA (2)		TERCERA CAMPANA (3)		MANGO	TOTAL		
	CAUPI	MAIZ	CAUPI	MAIZ	CAUPI	MAIZ		CAUPI	MAIZ	MANGO
MOTUPE	24 00	7 10	26 00	21 00			19 36	50 00	28 10	19 36
EL ARROZAL	29 00		3 18	2 00	28 67		26 82	60 85	2 00	26 82
TONGORRAPE	27 00				21 60		16 52	48 60	0 00	16 52
TOTAL	80 00	7 10	29 18	23 00	50 27		62 70	159 45	30 10	62 70
2 PRODUCCION (KILOS) (*)										
MOTUPE	15,411	22,011	9,775							
EL ARROZAL	17,180		1,984							
TONGORRAPE	12,647									
TOTAL	45,238	22,011	11,759							
3 PRODUCTIVIDAD (KILOS/HECTAREA) (*)										
MOTUPE	642	3,100	376							
EL ARROZAL	592		624							
TONGORRAPE	468									
PROMEDIO	565	3,100	403							
PROMEDIO AJUSTADO (*)	808	4,429	576							

(1) FEBRERO/JUNIO 95

(2) SETIEMBRE/NOVIEMBRE 95

(3) FEBRERO/JUNIO 96

(4) PLAN PROGRESIVO (DESDE ABRIL 95) HABILITACION DE FACTORES DE PRODUCCION

(*) LOS NIVELES DE PRODUCCION CONSIGNADOS CORRESPONDEN A STOCKS COMERCIALIZADOS CON LA PROMOCION DE TNS

SE ESTIMA QUE ELLO REPRESENTA EL 70% DE LA PRODUCCION REAL

ELABORACION PROPIA

CUADRO E 8 PROYECTO AG-372/FONDO CONTRAVALOR PERU CANADA INVERSION EJECUTADA
(US \$)

	CAUPI	MAIZ	MANGO (*)	TOTAL
1 MOTUPE				
- 1° CAMPAÑA	7,836	5,214	8,749	
- 2° CAMPAÑA	11,088	4,841		
- 3° CAMPANA				
- TOTAL DEUDA (1)	18,924	10,055	8,749	37,727
- PAGO (2)	11,056	4,479		15,534
- DEUDA PENDIENTE (3)	7,868	5,576	8,749	22,193
- SALDO A FAVOR (4)	472	324		796
2 EL ARROZAL				
- 1° CAMPAÑA	4,806		9,787	
- 2° CAMPAÑA	1,815	349		
- 3° CAMPAÑA	7,302			
- TOTAL DEUDA (1)	13,923	349	9,787	24,059
- PAGO (2)	5,263		1,548	6,811
- DEUDA PENDIENTE (3)	8,660	349	8,239	17,248
- SALDO A FAVOR (4)	4,172			4,172
3 TONGORRAPE				
- 1° CAMPAÑA	4,977		5,090	
- 2° CAMPAÑA				
- 3° CAMPAÑA	6,834			
- TOTAL DEUDA (1)	11,811		5,090	16,901
- PAGO (2)	3,740		1,177	4,917
- DEUDA PENDIENTE (3)	8,071		3,913	11,984
- SALDO A FAVOR (4)	4,088			4,088
4 TOTAL				
- 1° CAMPANA	17,619	5,214	23,625	
- 2° CAMPAÑA	12,903	5,190		
- 3° CAMPAÑA	14,136			
- TOTAL DEUDA (1)	44,658	10,404	23,625	78,687
- PAGO (2)	20,058	4,479	2,725	27,262
- DEUDA PENDIENTE (3)	24,599	5,925	20,900	51,425
- SALDO A FAVOR (4)	8,732	324		9,056

(1) SIN CONSIDERAR PAGOS

(2) PAGOS EFECTUADOS POR LOS BENEFICIARIOS

(3) (1)-(2)

(4) LO QUE QUEDA EN PODER DEL BENEFICIARIO

(*) POR CONVENCION SE UBICA EN LA PRIMERA CAMPAÑA

ELABORACION PROPIA

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CUADRO E 9 INVERSION (US \$/HECTAREA)

	CAUPI	MAIZ	MANGO
1 MOTUPE			
- 1° CAMPAÑA	326	734	452
- 2° CAMPAÑA	426	231	
- 3° CAMPAÑA			
- PROMEDIO	378	358	452
2 EL ARROZAL			
- 1° CAMPAÑA	166		365
- 2° CAMPAÑA	571	175	
- 3° CAMPAÑA	255		
- PROMEDIO	229	175	365
3 TONGORRAPE			
- 1° CAMPAÑA	184		308
- 2° CAMPAÑA			
- 3° CAMPAÑA	316		
- PROMEDIO	243		308
PROMEDIO GENERAL	280	346	377

FUENTE CUADRO E 7 Y E 8

ELABORACION PROPIA

CUADRO E 10 RELACION INGRESOS/INVERSION PROMEDIO HECTAREA (US \$)

PARAMETROS			
PRECIOS POR KILO		SOLES	DOLAR
1 CAUPI 1° CAMPAÑA		1 10	0 48
2 CAUPI 2° CAMPAÑA		1 16	0 50
3 MAIZ		0 52	0 23
TIPO DE CAMBIO PROMEDIO	2 31		
RELACION PRODUCTIVIDAD (*)	70 00%		

RESULTADOS	CAUPI			MAIZ		
	INGRESOS (1)	INVERSION (2)	SALDO (1)-(2)	INGRESOS (1)	INVERSION (2)	SALDO (1)-(2)
1 MOTUPE						
- 1° CAMPAÑA	437	326	110	997	734	26
- 2° CAMPAÑA	270	426	(157)			
2 EL ARROZAL						
- 1° CAMPAÑA	403	166	237			
- 2° CAMPAÑA	448	571	(123)			
3 TONGORRAPE						
- 1° CAMPAÑA	319	184	134			
- 2° CAMPAÑA						

(*) AJUSTE DEL VOLUMEN COMERCIALIZADO DEL CUADRO E 2

FUENTE CUADRO E 7 Y E 9
ELABORACION PROPIA

CUADRO E 11 RESULTADOS DE EXPLOTACION ECONOMICA DE UNA HECTAREA DE MANGO EN EL VALLE MOTUPE (US \$)

AÑO	INVERSION	MANTENIMIENTO	COSTO FINANCIERO	TM/HA	INGRESOS POR MERCADO			EGRESOS	FLUJO FONDOS
					NACIONAL	EXPORTACION	TOTAL		
1	1 038		125					1,163	(1,163)
2		584	70					654	(654)
3		716	86	1 50	153	169	322	802	(480)
4		1,535	184	4 00	408	450	858	1,719	(861)
5		1,000	120	7 00	715	788	1,502	1,120	382
6		1,000	120	10 00	1,021	1,125	2,146	1,120	1,026
7		1,000	120	13 00	1,327	1,463	2,790	1 120	1,670
8		1,000	120	15 00	1,531	1 688	3,219	1,120	2,099
9		1,000	120	18 00	1,838	2,025	3,863	1,120	2,743
10		1,000	120	20 00	2 042	2,250	4,292	1,120	3,172

INTERES (ANUAL) 12 00%
 TIPO DE CAMBIO 2 40
 TASA DE DESCUENTO 12 00%

MERCADO	DISTRIBUCION	PRECIO (US \$/TM)
- NACIONAL	70 00%	145 83
- EXTERNO	30 00%	375 00

ESCENARIO	TASA RETORNO	VALOR ACTUAL (\$)
- ESPERADO	23 40%	1,901
-10% PRECIO	18 96%	1,096
- 20% PRECIO	13 97%	291
- 60%/40% (*)	27 69%	2,761
- 80%/20% (*)	18 64%	1,042
- 1 A 9 AÑOS	18 56%	880

(*) MERCADO NACIONAL/EXTERNO

FUENTE TECHNOSERVE/FONDO CONTRAVALOR PERU CANADA
 ELABORACION PROPIA

CUADRO E 12 COSTO FINANCIERO AL USUARIO (% ANUAL)

	NOMINAL	EFFECTIVO ANUAL
1 COMISION FLAT ¹	3 00%	3 09%
2 TASA DE INTERES		20 00%
COSTO FINANCIERO I		23 70%
3 TASA ACTIVA AL FONDO GARANTIA		23 70%
4 TASA PASIVA AL FONDO GARANTIA		7 00%
COSTO FINANCIERO II (3)-(4)		15 60%

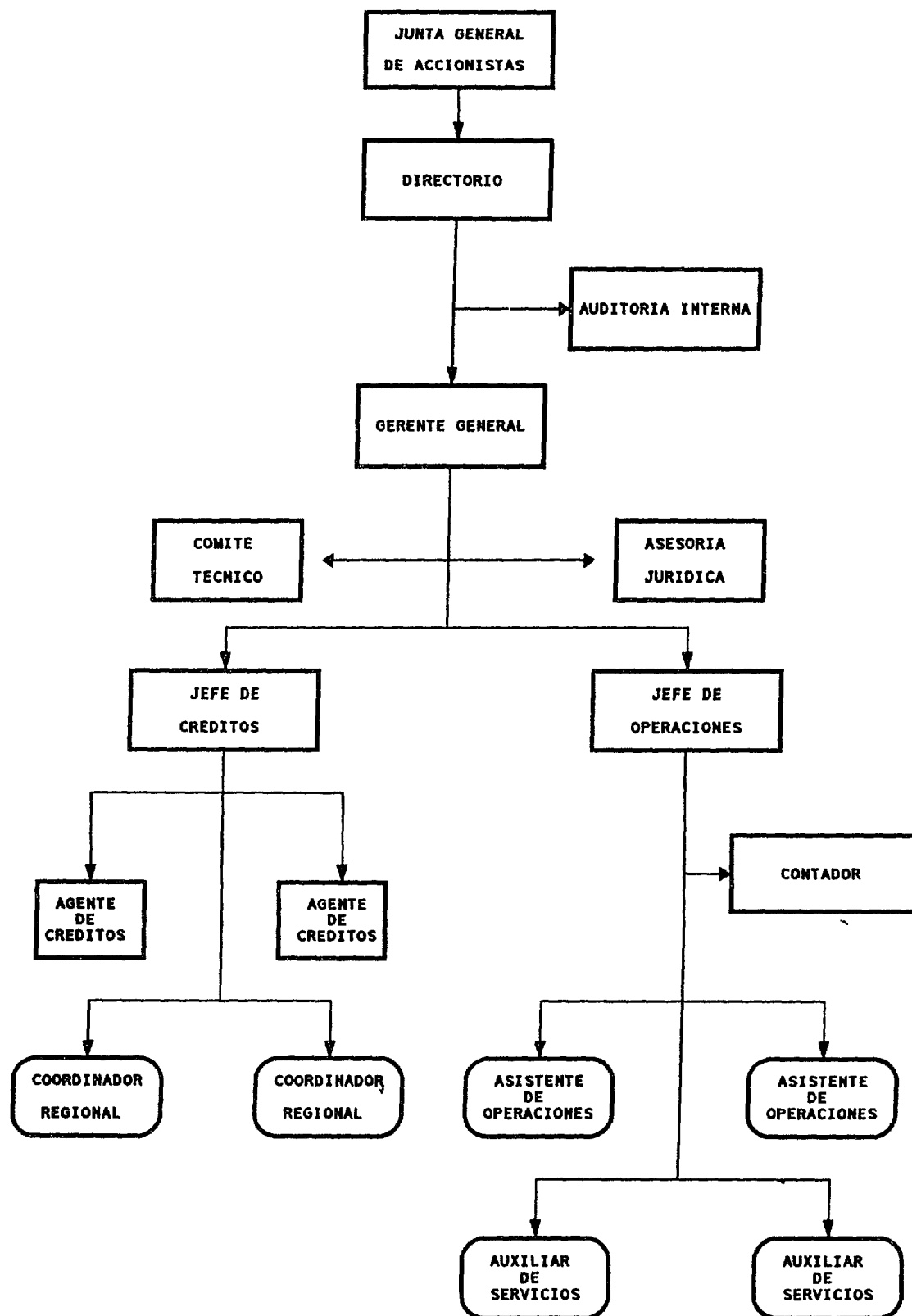
¹ Adelantado

Appendix 6

Caja Rural Cruz de Chalpon Organization Chart
and List of Personnel

CAJA RURAL CRUZ DE CHALPON S.A.

ORGANIGRAMA



PERSONAL CAJA RURAL "CRUZ DE CHALPON" S A

ADMINISTRACION

1	Luis Gárate Chávez	Gerente General
2	Lupe Burgos de Salazar	Secretaria de Gerencia
3	Elver Cabrejos Estela	Auditor Interno
4	Carlos Rodriguez Sánchez	Chofer
5	Carlos Castro Sandoval	Auxiliar de Servicios
6	Yalú Cabrejos Brios	Recepcionista
7	Victor Arbulú Norabuena	Procurador

CREDITOS

8	Oswaldo Tello Mier y Terán	Jefe de Créditos
9	Sofía Delgado Hernández	Auxiliar de Créditos
10	Angélica María Torres Lora	Practicante
11	Martha Barragán Gonzáles	Agente
12	Agustín Aguirre Castro	Agente
13	Alvaro Zegarra Larraín	Agente
14	Isabel Farro Acosta	Agente
15	July Janet Granados Leyva	Agente
16	Elena Rene Guzmán Rojas	Agente

OPERACIONES

17	Juan Mechán Purihuamán	Jefe de Operaciones
18	Mary Castro Yajahuanca	Asistente
19	Olga Guerrero Paredes	Asistente
20	Fabiola Esperanza Deza Cuellar	Asistente
21	Carmen Galloso Coronado	Contadora
22	María Elena Córdova Paredes	Practicante

OFICINA DE CHEPEN

23	Saúl Bobadilla tejada	Coordinador Chepén
24	Flor de María Villar Sotomayor	Secretaria

OFICINA DE MOTUPE

25	Iraida Niño Neyra	Secretaria
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PERSONAL ACDI-PERU

1	Jorge Noda Miranda	Representante ACDI en el Perú
2	Julio Montenegro Serquen	Analista Financiero
3	Claudia Madrid Castillo	Asistente Administrativo
4	Liria Araujo Castillo	Secretaria Ejecutiva
5	Fernando Hidalgo Ortíz	Asistente

Appendix 7

Brief Analysis of Selected Loan Documentation

LOAN PORTFOLIO ANALYSIS

I TECHNOSERVE Loans

a Asociacion de Agricultores del Valle Chaman

Loans 96-001 to 96-025

Purpose - for planting 66 50 H In frijol

5 of the clients did not complete the planting [\$3,320 5]

I= 20%

commission = 3%

maturity = 4 months

Amount \$46,550 to be disbursed in three payments

Documents complete and in good order

Loan was payments being made on schedule

II Delinquent Loans

a Camilo Ruiz Falla

Loan No 95-00224

Loan date 20 Sept 1995

Apr 1, 1996 there was a request for a loan extension for time to seel the crop -cotton-

Apr 2 a letter from the CR denying the request [what is the current status of the account]

Had an old account with BAP and FONDEAGRO that had been paid off

The CR has the land title as guarentee - valus approximately 3 times the value of the loan

I equals 20%

Commission equals 3%

Amount \$39,140 in two parts

8 months for cotton

6 months for purchase and maintainence of cattle and ovinos

b Comercial La Florida - Venta de Aborrotos and Rice Processing

Acct 210

Sept 23, 1995

Amount \$52,000

12 months with payments to be made monthly

20% with 3% commission

Guarenteed with title with liquidation value of the property assumed to be equal to the value of the loan

95

19 Feb The loan became delinquent and would be beyond amount of capital in June
Documents, including guarantee are in order

c Calderon Zapata and Gloria del Milagro
95-00290

20% w/1
\$14,000
12 months
\$30,000 guarantee
Travel Agency

There does not appear to be a signed loan contract in the file, however, all other documents appear to be in order

d Juan Bautista Cerquera Nuñez
Acct No 00666
Full Color Photo Labs
House as Guarantee 2-1 coverage
\$13,000

November 21-95 NOW HAVE A FORM THAT CARRIES THE FILE THROUGH THE
ENTIRE PROCESS!

10 months
No letter indicating payments are late
All of the Documents appear to be in order, except there does not appear to be a signed loan
contract ? Has the process changed?

e Rodolfo Enrique Lluen Yaipen

Apparently a guarantee from a family member
\$6000
to commercialize carne de aves y rojas
20% and 3% commission
August 25, 1995

on Sept 25 legal action was filed

WHAT IS THE CURRENT STATUS

Another loan on 10-12-95
What is happening with this account

III. Normal Loans

1) Picon Cespedes Francisco
96-00012
\$7,500 working capital loan (or was it really \$10,000 - see Projection at the end of file)OK
4 months
20% with 3% commission

Guaranteed \$15,000

Started 3-28 with loan granted on 4-3

had earlier loan 95-00589

\$5,000 for 4 months

ALL DOCUMENTS ARE IN ORDER

2) Diaz Roncal and Jose Visitacion

95-00725

\$36,818 70

20% with 3% commission

(what is the 6 46% on the first document as commission?)

Approved at \$42,000 by directors and the amount was reduced based on guarantee

Hipoteca \$41,400

Prenda Agricola \$17,885

(? About the first document in the file)

3) Zamora Perez TIMOTO

S/ 14,000

12 months

3% per month and 3% commission

working capital

96-00017

12 months

ALL DOCUMENTS IN ORDER

4) Morales Llovera Francisco

rice cultivation (Santa Ana)

96-00042

96-00011 (became part of the new loan that had guarantee S/ 9,114 51

loan was turned down earlier because the [titles were not clear

S/8,000 repaid

led to s/10,000

DOES NOT APPEAR TO BE A LOAN CONTRACT

5) Ramario Montenegro Olano

purchase of seed for rice

s/2,600

6 months

\$4,000 guarantee 3% monthly and 3% commission

6) Abanto Galacia y Hudson Martin

S/ 1,100

12 months

NO CREDIT CONTRACT

7) Semillas del Norte Oct 10, 1995

\$4,000

to improve 8H for rice

6 months 20% with 3% commission

Guarentee \$4,900

ALL DOCUMENTS IN ORDER

8) Jose Sanche Diez

\$8,500 (Monsefu)

12 months

for make artesian products and feedlot for cattle

96-00206

guarentee \$22,833

had an earlier loan 95-00103 that was repaid

ALL DOCUMENTS ARE IN ORDER

8) Ordonez Mio Llanner Nicolas

96/00025

S/5,000

working capital

8 months

27/02/96 sent a letter indicating that no payment had been made in February

ALL DOCUMENTS IN ORDER

95/00352

\$1,800

10) Jose Orlando Ventura Zapata

96/00257

S/10,000 (increased loan size from 95/00214 S/3,500

working capital to buy leather

10 months - MOTUPE

ALL DOCUMENTS IN ORDER

12) Pompeyo Mundaca Valderrama
96/00226

\$5,500
12 months - raw materials

95/00363
\$3,500 for 9 months

NO LOAN CONTRACT FOR FIRST LOAN

12) Juan Ismael Ruiz Trevizant
96/00225

\$14,795
corn - 6 months

first loan - \$7,142

ALL DOCUMENTS IN ORDER

Appendix 8

Capital Adequacy and Loan Cost Analysis

ANALYSIS OF COST OF SAVINGS/DEPOSITS VS COST OF BORROWED FUNDS

This analysis is based on the following assumptions

- 1 Cost of Borrowed Funds = 12%
- 2 Cost of Dollar Savings = 8%
- 3 Cost of Sole Savings = 20%
- 4 Rate Earned on Dollar Loans @ 20%
- 5 Rate Earned on Sole Loans @ 36%
- 6 Encaje Requirement for Dollar Deposits @ 45%
- 7 Encaje Requirement for Soles Deposits @ 9%
- 8 LIBOR = 7% (for 36% of Encaje)
- 10 No foreign Exchange Risk in Loan Portfolio

	Borrowed Funds	\$ Deposits as \$ Loans	\$ Deposits as Sole Loans	S/Deposits as S/LOANS	S/Deposits as \$/Loans
Amount of Funds (1)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Amount Available to Lend (2)=((1)X(1-encaje)	1,000,000	550,000	550,000	910,000	910,000
Cost of Funds (3)= (1)x(Cost of Funds)	120000	80000	80000	200000	200000
Loan Earnings (4)=(2)X(Loan Rate)	200000	110000	198000	327600	72800
Encaje Earnings (5)=(1X 36 encaje)X(LIBOR)	0	11340	11340	2268	2268
Financial Margin (6)=(4)-(3)+(5)	80000	41340	129340	129868	-124932

ASSUMPTIONS

Loans	9,700,000
Investments	275,000
Encaje	2,025,000
Fixed Assets	500,000
Total Assets	12,500,000
Deposits	7,500,000
Borrowed Funds	3,500,000
Capital	1,500,000
Total Lia & Equity	12,500,000
Operating Expenses	550,000
Loan Loss Provision	04*LO
Depreciation	03*FA
Libor	0 07
Loan Interest (\$)	0 2
Loan Interest (/S)	0 36
Investment Interest	0 12
Encaje (\$)	0 46
Encaje (S/)	0 09
Deposit Interest (\$)	0 08
Deposit Interest (S/)	0 2
Portfolio Composition (\$)	0 5
Portfolio Composition (S/)	0 5
Dividend	0 08

SPREAD CALCULATION

Earnings on Loans	2716000	
Earnings on Investments	33000	
Earnings on Encaje	141750	
Total Interest Earnings		2890750
Cost of Deposits	1050000	
Cost of Borrowed Funds	420000	
Cost of Funds		1470000
Interest Margin		1420750
Operating Expenses	550000	
Depreciation	15000	
Loan Loss Provision	388000	
Expenses		953000
Net Margin		467750
Dividends		120000
To Retained Earnings		347750

Appendix 9
USAID Form 1330

AID EVALUATION SUMMARY - PART I

1 BEFORE FILLING OUT THIS FORM READ THE ATTACHED INSTRUCTIONS
2 USE LETTER QUALITY TYPE NOT DOT MATRIX TYPE

IDENTIFICATION DATA

A Reporting AID Unit Mission or AID/W Office _____ (ES# _____)	B Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input type="checkbox"/> Slipped <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date FY ____ Q ____	C Evaluation Timing Interim <input type="checkbox"/> Final <input type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>			
D Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated if not applicable list title and date of the evaluation report)					
Project No	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)

ACTIONS

E Action Decisions Approved By Mission or AID/W Office Director Action(s) Required	Name of Officer Responsible for Action	Date Action to be Completed
(Attach extra sheet if necessary)		

APPROVALS

F Date Of Mission Or AID/W Office Review Of Evaluation				
		(Month)	(Day)	(Year)
G Approvals of Evaluation Summary And Action Decisions				
	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)				
Signature				
Date				

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A B S T R A C T

H Evaluation Abstract (Do not exceed the space provided)

C O S T S

I. Evaluation Costs

1 Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U S \$)	Source of Funds
Name	Affiliation			
2 Mission/Office Professional Staff Person-Days (Estimate) _____		3 Borrower/Grantee Professional Staff Person-Days (Estimate) _____		

SUMMARY

J Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)

Address the following items

- Purpose of evaluation and methodology used
- Purpose of activity(ies) evaluated
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office

Date This Summary Prepared

Title And Date Of Full Evaluation Report

I Purpose of Evaluation and Methodology Used

The broad purpose of the evaluation of the project is to assist USAID/Peru and ACDI in reassessing the overall design, and to identify strengths, areas for improvement, and specific actions that will help USAID/Peru and ACDI maximize achievement of project objectives

This independent assessment is designed to determine whether, through current configuration of activities and management methods, ACDI, USAID/Peru, TechnoServe, various Peruvian governmental agencies, and other participants involved in the project are producing the expected outputs as projected in the work plan developed in February 1994. Of particular interest are issues relating to the role, efficiency and potential of the CRCC, the effectiveness of various project interventions, and the economic impact of these interventions

The evaluation was carried out by a two-person team, which collectively possesses skills in project design and evaluation in Latin America. Their full resumes may be found in Appendix 2. The evaluation was undertaken during the period May 19 to June 19, 1996. The team used the following data collection and interview methods:

- o Review relevant project papers, contracts, and periodic reports
- o Interview the Caja Rural's Board members, staff, field officers and clients, as well as TechnoServe's staff working with the CBEs
- o Perform site visits to representative Caja Rural and CBE clientele in Chiclayo and the Olmos, Motupe and Jequetepeque valleys
- o Perform site visits to Cajas Rurales in Piura, Tarapoto, and Ayacucho, meet with management personnel and clients
- o Review financial records, management information system, and loan portfolio of the Caja Rural
- o Review information available at the Superintendency of Banks regarding the Caja Rural nationwide system and its performance relative to Cruz de Chalpon
- o Interview appropriate staff at the Ministry of Agriculture and the Caja Rural Association

A list of persons interviewed and documents reviewed can be found in Appendices 3 and 4 respectively

II. FINDINGS AND CONCLUSIONS

The basic premise of this evaluation creates the basis for a number of recommendations which will be found below. This evaluation is supposed to be a mid-term evaluation of a three-year project, yet there are less than four months remaining in the project. This time frame mismatch raises a number of points. First, the project was based on the premise that all approvals necessary for the creation of the CRCC would be granted within 3-6 months following the initiation of the project. When this failed to materialize, the project became bifurcated.

The TechnoServe component of the project took on a life of its own, albeit with little initial success due to the failure of proper management oversight by the TechnoServe project leader. TechnoServe was attempting to work with groups of farmers as detailed by the work plan, yet there was no financial institution to provide the necessary credit. TechnoServe then looked for and was able to find alternative sources of credit for one project, creating the first of many disjunctures with the basic project plan. What is not clear from a practical conceptual basis is why the two project components were not both originally assigned to ACDI. TechnoServe was continuing to operate (funding was available), but their actions were doing little to support the basic tasks of the project.

There are obviously problems between ACDI and TechnoServe in the current project. The evaluation team believes that the level and type of assistance currently being provided by TechnoServe is sound. The level of assistance has significantly improved compared to that which was being offered earlier in the project. The assistance being provided to the groups receiving loans is positive. As valuable as these services might be, this project component is not likely to create the business units it deems to be essential for long-term success even if the project were to be extended. In addition, these efforts are not an essential component in making the CRCC a successful institution.

The delays in being able to get the CRCC operational appear to have resulted from, (a) misstatements to ACDI by TechnoServe as to the amount of capital which would be forthcoming when it arrived in Chiclayo, and (b) foot dragging by government agencies who were not fully supportive of the various aspects of the project. Thus, what we are faced with is evaluating the Caja Rural component of the project from the basis of its near "mid-term" position. On that basis, the project is functioning well, and with the exception of certain project components which were programmed too early in the cycle, project objectives have been met. The CRCC is well positioned--with continuing support from ACDI--to move to the next step in project implementation, i.e., further refining the lending function, implementing a savings mobilization program, marketing the capital acquisition program, and, hopefully, implementing a micro-enterprise lending program which will be supported by the CAF.

The design of the TechnoServe component of the project failed to account for basic requirements in the law which call for a strict loan guarantee regimen and the lack of land titling projects coming to fruition. In addition, TechnoServe appears to believe that the CRCC should create a special set of lending policies for the clients they serve. In summary,

- o The TechnoServe component of the project is not essential to the basic need to create a strong community-owned, market-driven financial institution
- o To the degree that the valuable functions of (a) production assistance, (b) commercialization, and (c) market information need to be provided, the most efficient way for them to be provided if the project is extended would be to have that component transferred to ACDI
- o That even in the best of circumstances, the TechnoServe component of the project will not be able to create business units in the groups thus far organized within the expanded time constraints. Additionally, the credit needs that are foreseen for the export-based production would require loans of a maturity beyond what would be possible in the current CRAC environment

The efforts undertaken by ACDI under the Title III program have had a positive impact on the eight participating CRACs. After some degree of politically motivated delay, the program of strategic planning and financial management was undertaken in an efficient manner providing participants with an opportunity to deal with the issues in a hands-on format. The success of this program has been tempered by the fact that there has been a significant turnover of directors and the fact that the pace of development among and between the eight CRACs differs significantly. The material being presented is relatively complex in nature and it should not be expected that a one-time exposure, even with this relatively effective approach, will provide the participants with the background necessary to fully understand the material. This suggests that the program should continue because

- some CRACs need significant review of previous work, and
- project team members need to review basic needs with participating CRACs and develop programs specialized to the needs of each CRAC

In addition, the data indicate and discussions have suggested that there are one or two CRACs which are facing serious problems. Most individuals we have interviewed suggest that the failure of one CRAC is likely to cause a system-wide failure. While the evaluation team is not so pessimistic, we do believe that the failure of one CRAC will make it more difficult for other CRACs to attract additional capital or mobilize savings for a significant period of time.

It is clear that problems with the current software system is perhaps the most serious operational concern that must be solved. The fact that the basic approach to attempting to solve the problem is politically based makes the evaluation team concerned that, at best, the solution will be less than optimal, and, at worst, it could cause a significant delay in the ability of the system to be able to expand its service offerings. It is difficult to accept the premise that a new system had to be developed in a world where there are several very efficient systems for financial institutions available in the marketplace. To compound the problem, the choice of an institution which has little, if any, experience in developing software for financial institutions to develop the product stretched credulity.

The ACRAC is currently charged with software development and will be able to take the credit (or blame) for the system that is expected to become operational no later than early 1997. The fact that the Association is currently operating without a manager, and the fact that the majority of its budget is supported by sources other than the participating CRACs suggest that the Association, like many other institutions of its type, has a high probability of becoming donor driven in terms of the services that it attempts to provide. Discussions suggest that current ACRAC leadership believes that it "knows" what participating CRACs need, without undertaking the analysis necessary to validate its hypothesis. We have significant concerns that the ACRAC has ideas for programs and projects that are well beyond the ability of participating CRACs to support financially.

III Recommendations

Based on the information presented in this report and summarized above, we have developed the following recommendations:

- o The Caja Rural Cruz de Chalpon pilot project has shown significant potential, meeting nearly all objectives indicated for the first year of operation of the CRCC and should be extended through December 1997 at current funding levels
- o In the extended project, ACDI should place emphasis on the following aspects of its work with the CRCC
 - credit function
 - savings mobilization
 - capital accumulation
 - software implementation
- o The TechnoServe portion should not be funded as part of the extended project. However, to the degree that TechnoServe is able to find alternative sources of funding to support intermediate/long-term export-based production, USAID/Peru should consider funding a portion of the costs associated with the on-going technical assistance program, or work with TechnoServe to help develop alternative funding sources.

- o Technical assistance to the Caja Rural Cruz de Chalpon should be gradually reduced throughout the remaining project life to allow the directors and managers to take direct control of the decision-making process. An increased focus should be placed on expanding efforts with the other eight CRACs and on providing support for development of a national system
- o Efforts towards development of a "national system" should be increased, including increased support for creating an independent and viable association. A "grassroots based" strategic planning process for the ACRAC should be developed and implemented
- o Current Title III efforts should be continued for an additional 12-15 months for
 - providing assistance in implementing and updating current plans
 - providing a second run through for CRACs which have experienced significant board/staff turnover
 - identifying and, hopefully with the support of the SBS, developing a program to intervene in those CRACs experiencing serious problems for the purpose of returning them to viability
- o ACDI should work closely with the SBS to improve the program of supervision and examination of CRACs carried out by the Superintendency
- o ACDI should strongly support efforts to improve speed the pace of efforts to allow small farmers to be able to obtain title to their land
- o Internal and external funding sources should be identified to allow the CRCC to make loans with intermediate and long-term maturities
- o Close monitoring of any and all government efforts in creating a rural bank should be made in order to ensure that CRAC interests are well represented in the process
- o If the Association reaches a position where it is feasible to consider developing a second-tier financial institution, USAID/Peru should provide funds for 3-6 months of short-term technical assistance to support the efforts

IV LESSONS LEARNED

This evaluation provided the team leader with several interesting insights which related information found in this project with earlier experiences. These insights include:

- 1 **Serendipity** The best way to frame an understanding is to listen to people who live in the world that is being analyzed. During the trip to Ayacucho, there was an off-chance opportunity to spend approximately one hour with Pepe Arias. We believe that anyone interested in learning a new perspective on the issues facing the agricultural sector in Peru spend some time listening to his ideas.
- 2 **Need for Hands-On Project** The failure of TechnoServe to provide full-time direction to its portion of the project in early months led to (a) ACDI receiving incorrect information as to the capital base which was available as it began its part of the project, (b) an inefficient use of project resources, and (c) a significant reduction in the probability that TechnoServe could achieve the three stages of group development it believes necessary for project success.
- 3 **Design Structure** Close attention must be paid to all components of project design and time line sequencing. A closer look at the CRAC law and the probable financial structure and policies of the CRCC should have suggested that it would not have been prudently willing and/or legally able to provide loans that fit the type of loans that the TechnoServe component of the project was likely to require. When project assumptions concerning the date of chartering the CRCC were not met, the TechnoServe component of the project was in a position of creating loan demands that could not be funded as expected. This created a negative image for the CRCC in the marketplace.
4. **Too Soon Old, Too Late Smart** After having followed development efforts in Latin America for over 30 years and having seen many "missed opportunities", it is frustrating to see potentially very successful projects where participants are expected to accomplish heroic efforts in exceedingly short time periods in a world of diminished resources.

ATTACHMENTS

K Attachments (List attachments submitted with this Evaluation Summary, always attach copy of full evaluation report even if one was submitted earlier, attach studies, surveys, etc , from on-going evaluation. If relevant to the evaluation report.)

COMMENTS

L Comments By Mission, AID/W Office and Borrower/Grantee On Full Report